

# **Investing in Scotland's Future**

## **Resource Spending Review Framework**

**December 2021**

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## Foreword by the Cabinet Secretary for Finance and the Economy



I am pleased to launch our Resource Spending Review today with the publication of the Framework.

The Framework begins a national conversation about how we create the conditions for our citizens, businesses and third sector to thrive. Our mission is to deliver effective services for the people of Scotland today and maintain sustainable public finances that ensure we can meet the needs of future generations too. It is vital that we understand and reflect opinions of the people public services exist for, and the experience of those who help us deliver them. This is a real opportunity for stakeholders to influence the

future of Scotland's spending priorities and to ensure that the Scottish Government delivers for the people of Scotland.

In Scotland today, public spending is one of the most important levers that this government can pull to deliver for its citizens. Our choices about how we allocate the funding available to us reflect our priorities – ranging from what a social security system looks like and who it supports, to how our hospitals function and how many teachers are in our classrooms.

The decisions we make need to prepare us for a period of social, economic and constitutional change. We face growing demand for public services due to the impact of COVID-19 on society. We have a moral and statutory duty to act to combat the global climate emergency, whose impacts we already see. And we must invest now to adapt our public services to better support an ageing population.

These will be tough decisions to take. Our already tight budgetary envelope has been made even more challenging by the UK Government's decision to end COVID-19 funding as part of the Chancellor's Autumn Statement and Spending Review, at a time when the virus remains a very present threat. We do not have the fiscal levers to adequately manage the financial risks that Scotland faces.

We will need to decide what we prioritise and how we deliver our services. There will certainly be opportunities to reform and invest in services to achieve improved outcomes in a more efficient way, but there may also be policies which require a rethink, and perhaps reprioritisation to better meet the needs of the people of Scotland now and in the future.

To do this effectively, we will focus on how we best use our resources to support transformational progress towards this government's core priorities: to support progress towards meeting our child poverty targets, to address climate change, and, underpinning these, to secure a stronger, fairer, greener economy.

Our approach to this Resource Spending Review will be based on three principles, which will both shape our spending plans and inform our ongoing engagement throughout the parliamentary term.

Firstly, the Resource Spending Review will be outcomes focused, aiming to support positive outcomes for our citizens in the most efficient and effective way possible.

Secondly, we will be evidence-informed, drawing on the available evidence to underpin the decisions we take in May, but committed to improving our evidence base for future decisions too.

Thirdly, it will be consultative. We will engage widely, ensuring stakeholder views are listened to, and that ‘the conversation’ continues throughout and beyond the spending review period.

In May 2022, I will publish the findings of the Resource Spending Review which will outline resource spending plans to the end of this Parliament in 2026-27. Together with the Capital Spending Review which we published in 2021, it will give our public bodies and delivery partners greater financial certainty to help them rebuild from the pandemic and refocus their resources on our long-term priorities.

I look forward to engaging with as many of you as possible throughout this process and beyond to shape our public finances for a fairer, greener Scotland.

A handwritten signature in black ink, appearing to read 'Kate Forbes', written in a cursive style.

**KATE FORBES MSP**

**Cabinet Secretary for Finance and the Economy**

## Executive Summary

This framework document launches the Scottish Government's first multi-year Resource Spending Review since 2011. The aim is to set out spending plans for the remainder of the parliamentary term which support the Scottish Government's ambitions. Our review focuses on resource spending plans. Resource spending is money that is spent on administration and the day-to-day delivery of services and programmes, such as school meals, concessionary bus passes and most public sector staff salaries.

The Framework sets the scene for the development of these spending plans and opens our public consultation. The intention is to publish multi-year spending plans in May 2022 to provide our delivery partners and businesses, communities and individuals across Scotland with some certainty on which to base their own forward planning.

The Resource Spending Review will build on the Capital Spending Review that we published earlier this year. Together these two spending reviews will give a comprehensive picture of Scotland's multi-year public spending plans.

The Resource Spending Review Framework has been produced as part of a suite of Scottish Government fiscal publications, including the 2022-23 Scottish Budget, 2021 Medium-Term Financial Strategy and our Public Sector Pay Policy.

It also sits within a wider landscape of devolved taxes and spending that together play an integral role in the funding of the public services we all rely on. Notably, the forthcoming publication of Scotland's first Framework for Tax will provide a solid foundation from which the design and delivery of devolved tax policy can be based - supporting the recovery, national outcomes and the pursuit of a fairer, greener and more prosperous Scotland for everyone.

Chapter 1 provides the context for the Resource Spending Review and introduces our mission and the core priorities that will inform the process. This chapter also provides an overview of the budgetary framework that the Scottish Government operates within.

Chapter 2 details the fiscal and economic context for the Resource Spending Review. In this chapter, we outline the potential funding scenarios and a set of spending scenarios. Our spending scenarios consider a range of factors that may create additional pressure on the public sector, including demographic change. The layering of the funding and spending scenarios provides an insight into the potential challenges of Scotland's public finances over the coming years and underlines the need for careful planning.

Chapter 3 provides an overview of our proposed approach to the Resource Spending Review, including the principles of our approach alongside some initial opportunities that have been identified.

Chapter 4 outlines our engagement approach, including who we will engage with and how. This consultative approach is at the heart of the Resource Spending Review. We have included engagement questions throughout this document and details of how to respond can be found in this chapter.

Our annex provides the engagement questions that will be deployed in our consultation in one place.

## 1. The Context

This chapter explores the context for the Resource Spending Review, and introduces our three priorities:

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

### 1.1 Context for the Resource Spending Review

The Resource Spending Review is being developed in a context of uncertainty and following a period of shocks and shifts which have changed the world in which we live.

The pandemic has dramatically affected every area of life in Scotland. Scotland's economy experienced a significant shock due to COVID-19, which has been exacerbated by EU Exit. The economy appears to be recovering more quickly than expected from the pandemic, with GDP predicted to reach its pre-pandemic level in the second quarter of 2022.<sup>1</sup> But we know that this only tells part of the story, and that the impacts of COVID-19 continue to be felt acutely by many individuals, businesses and communities across Scotland.

We also know that the impacts of the pandemic have been, and continue to be, felt unequally. The pandemic has deepened existing inequalities, with those already more disadvantaged disproportionately affected. It also exposed the effects of digital exclusion, wealth inequality and generational divides.<sup>2</sup>

It seems likely that inequalities exacerbated by the pandemic will continue to deepen, which will affect people's resilience to other types of risks – such as health or climate risks. The testimony and demands from young people, activists, and participants from the global south at COP26 brought home the fact that the threat from climate change continues to intensify and that its impacts are already being experienced by many people across the world. Experts expect crises to happen more frequently and with greater intensity and severity.<sup>3</sup> In this context, increasing resilience and building in flexibility to future shocks is key to achieving wellbeing across society.

Amid the challenges of COVID-19, we have also seen examples of creativity and innovation, including changes to ways of working that benefit employees and employers. There is much that we should rightly capitalise on in order to support the building of a fairer, greener Scotland.

The National Performance Framework<sup>4</sup> describes the kind of Scotland we want to see and remains a cornerstone of our work. Although our future is uncertain, we can be sure that climate change, technological advances and changing demographics will significantly affect our lives. Some effects will be felt during the next five years of our Resource Spending Review period, while others may not materialise for many years. We must shape our spending plans, so that our public services meet our needs now and are ready to meet the needs of our children and future generations. The Resource Spending Review is our

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<sup>1</sup> Scottish Fiscal Commission, [Scotland's Economic and Fiscal Forecasts](#), December 2021

<sup>2</sup> Scottish Government/COSLA, [Scotland's Wellbeing – The Impact of COVID-19](#), December 2020

<sup>3</sup> Office for Budget Responsibility, [Fiscal Risks Report](#), July 2021

<sup>4</sup> Scottish Government, [National Performance Framework](#), June 2018

opportunity to do this, and to lay the foundations for a sustainable future in an increasingly interconnected world.

Since May, the Scottish Government has demonstrated leadership in the face of the challenges outlined above. The delivery of the 100 Days Plan<sup>5</sup> was followed by the Programme for Government<sup>6</sup> and the Covid Recovery Strategy<sup>7</sup> which set out our next steps in meeting these current and future challenges over the course of this Parliament and beyond. In August, the Bute House Agreement<sup>8</sup> re-affirmed our commitment to securing a fairer, greener Scotland and saw two Scottish Green Party Ministers join Government.

In order to realise this ambition, it is vital we set out a clear financial plan that shows how funding will support the achievement of our goals. Budget 2022-23 acts as a first step in this plan, setting out how we will fund the first year of these ambitious programmes. The Resource Spending Review builds on this foundation and will set out how we marshal our resources effectively to ensure their long-term success.

## **1.2 A stable foundation to rebuild our public services**

This Resource Spending Review will be an important milestone in Scotland's fiscal journey. We have not had the conditions to publish a multi-year spending review since 2011 as planning horizons have been shortened by our reliance on UK Government confirming the block grant, with a UK Spending Review promised and postponed twice in recent years.

This Resource Spending Review will build on the foundations of the 2022-23 budget and set out our spending plans from 2023-24 to 2026-27, the final year of this Parliament. Alongside the development of a fiscal framework for local government, it will give our delivery partners across the public and third sectors greater financial certainty to help plan and realise our shared ambitions effectively. Like the Scottish Government, public bodies have been working to a one-year budget cycle since the end of the last spending review period in 2014-15.

The UK Spending Review of October 2021<sup>9</sup> offered clarity over funding for a three-year period from 2022-23 and outlined the block grant to be received by Scottish Government in each of those financial years. However, the UK spending review period ends in 2024-25, so we will need to predict UK Government activity – spending, tax and borrowing decisions – beyond 2024-25 and into a new Westminster administration, to estimate the money available to us when shaping our own spending plans.

Even within the UK spending review period, there is no guarantee that Scottish Government will receive the block grant funding set out in the UK Spending Review document on 27 October 2021. In 2020-21, a minimum funding guarantee allowed the Scottish Government to respond to the pandemic with vital support for businesses in confidence that the promised funding would be received from UK Government. The minimum funding guarantee has not been renewed, which means that if the UK Government does not deliver

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<sup>5</sup> Scottish Government, [Priorities of Government Statement](#), May 2021

<sup>6</sup> Scottish Government, [Programme for Government](#), September 2021

<sup>7</sup> Scottish Government, [Covid Recovery Strategy](#), October 2021

<sup>8</sup> Scottish Government, [Agreement with Scottish Green Party](#), August 2021

<sup>9</sup> HM Treasury, [Autumn Budget and Spending Review](#), October 2021

against its spending plans, there is a risk that we do not receive the funding we have planned for.

And the funding announced by UK Government cannot be considered enough. Our block grant has been cut each year of the UK Spending Review compared to 2021-22, as COVID-19 funding has been removed even as the public service response to the pandemic and its aftermath must continue. Furthermore, the increases announced to baseline funding do not undo the damage of more than a decade of austerity.

The powers in the UK Internal Market Act (IMA) for the UK Government to spend in devolved areas raise further uncertainty for the public spending landscape in Scotland. The UK Government has indicated it will not seek Scottish Government agreement to this spending, risking incoherence in spending plans and inconsistent policy priorities. Scottish Government continues to oppose the IMA and believes that funding for devolved purposes should be allocated to the Scottish Parliament and Scottish Government under HM Treasury's Statement on Funding Policy in the normal way.

Despite these challenges, we believe it is vital that our own spending review covers the full parliamentary term. By going further than the UK spending review period, we are looking to give public bodies, including our local authorities, financial stability and the opportunity to plan multi-year projects in greater confidence of future funding.

We have a duty to future generations to manage public finances responsibly and lay stable foundations for the people of Scotland to adapt and thrive whatever the future brings. That does not mean austerity, which disproportionately affects the poorest and most vulnerable in our society. It means making informed and evidenced decisions about how we best use the funding available to us to meet the needs of our communities through effective and sustainable public services and increasing prosperity in a fair and green way.

Annual budgets will continue to be set through the annual parliamentary budget process, which gives the Scottish Government the authority to spend public funds and gives the flexibility to review and update spending plans to respond to changing circumstances and reflect the evolving fiscal landscape.

### **1.3 Our priorities**

In order to effectively develop and appraise future spending plans it is important that we have a set of core priorities to guide the Resource Spending Review process. Drawing on the commitments the Scottish Government has made so far, which set the path for our recovery from the pandemic, we have identified three priorities for the review which we will use to inform our decisions about the allocation of funding.

- **Child poverty:** the experience of poverty lies at the heart of many social and economic challenges we face as a nation, resulting in poorer outcomes over an individual's lifetime and considerable investment to mitigate its negative impacts. We will focus on increasing household incomes and reducing costs to lift more families out of poverty, and will work to mitigate the impacts of poverty for children ensuring they can fulfil their potential. In particular, we will focus on supporting priority families out of poverty. We have declared a national mission to tackle child

poverty. Plans developed through the Resource Spending Review will help set us on a critical path to reduce child poverty levels to less than 10% by 2030-31.

- Climate change: the global climate emergency is one of the gravest threats facing Scotland and the wider world. Experts agree that public spend on climate change can deliver future benefits that far outweigh the costs today. The Scottish Government will continue the momentum generated by Glasgow's hosting of COP26 by investing in the protection and restoration of our natural environment, decarbonising our homes, industries and transport and leading the way in renewable energy and green technology. Government investment on its own will not be sufficient. While there are areas of society that should always remain government funded, we recognise that the scale and urgency of the climate challenge means private investment will be critical to shift to a net zero, wellbeing economy. Our work on the climate emergency requires a long-term, whole-of-government shift towards the transformational change required to becoming a net zero nation. In this context, the Resource Spending Review will seek to support activities to meet our statutory commitments to reduce emissions to net zero by 2045, to secure a just transition that leaves no one behind, and to build resilience to climate impacts. We will also work towards climate justice, recognising that the impacts of climate change often deepen existing inequalities.
- Economic transformation: the impact of COVID-19, combined with the effects of the UK's exit from the European Union have created challenges for Scotland. The Scottish Government's National Strategy for Economic Transformation will seek to transform the economy, setting us on a path towards a wellbeing economy for all. This will be an economy that is rooted in Fair Work. It will improve standards of living, enables businesses to grasp the opportunities of a green recovery, and secure the new jobs of the future. Our ambition for a stronger, fairer, greener economy will consider how the investment of public funds will support each of these dimensions in tandem.

As the Finance and Public Administration Committee noted in their pre-budget report<sup>10</sup>, the Resource Spending Review is an opportunity to step away from the pressures of a one-year budget cycle, and create the fiscal space to invest in long-term, preventative measures which have a greater impact on these cross-cutting priorities.

This is also true of the transformative change necessary to enable us to continue to deliver public services effectively and sustainability for an evolving society. The National Care Service will be launched in this Parliament, along with a commitment to increase social care capacity. It is the single biggest public health reform since the foundation of the NHS, with all the complexity and ambition that suggests. A multi-year spending review allows us to reflect the impact the creation of the National Care Service will have on how the Scottish Government, local authorities and delivery partners work together and to ensure that funding enables and supports both the National Care Service and the people who access its services.

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<sup>10</sup> Finance and Public Administration Committee, [Pre-Budget Scrutiny 2022-23: Scotland's Public Finances in 2022-23 and the Impact of COVID-19](#), November 2021

Q1. In Chapter 1 we have identified three priorities to guide the Resource Spending Review process:

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

Setting these as priorities helps us consider where spend should be targeted and re-directed. Do you agree that our resource spending should focus on these?

We welcome your views on these three priorities for this Resource Spending Review.

## 2. The Challenge

This chapter explains the fiscal and economic context for the Resource Spending Review. It sets out the funding outlook, which is considered in more depth in the Medium-Term Financial Strategy (MTFS). It models three spending scenarios and outlines the immediate and longer-term pressures on public spending which we need to consider when developing our spending plans to ensure that we meet the needs of our changing population and build resilience for the future. Finally, it compares the funding and spending scenarios to assess the scale of the challenge and the opportunities over the Resource Spending Review period.

### 2.1 Funding

The MTFS sets out the funding projections for the Scottish Government for the Resource Spending Review period, to 2026-27. The funding projections are built on three main components:

- UK Government spending decisions: through the Barnett formula, the change in the Scottish Government's Block Grant each year is determined by the change in the UK Government's spending on areas devolved to the Scottish Parliament.
- Relative growth in Scottish Government and UK Government devolved tax revenues: under the Fiscal Framework, if Scottish devolved tax revenue per person grows relatively faster than in the rest of the UK (rUK), the Scottish Budget is better off and vice versa. This means that Scotland's budget is influenced not only by tax policy and economic performance in Scotland, but also by tax policy and economic performance in the rest of the UK.
- Relative growth in Scottish and UK social security expenditure: under the Fiscal Framework, if Scottish devolved social security expenditure grows relatively faster than in the rUK, the Scottish Budget is worse off. If UK expenditure grows relatively faster, additional funds are available within the Scottish Budget. Again, this means that Scotland's budget is influenced not only by policy changes within Scotland, but also what happens in the rest of the UK.

The funding projection sets out a central scenario, based on UK Spending Review announcements to 2023-24 for the block grant, and Office for Budget Responsibility (OBR) forecasts for growth in government spending beyond that. It reflects Scottish Fiscal Commission (SFC) tax revenue forecasts and the OBR's forecasts for block grant adjustments. Upside and downside scenarios have been modelled to illustrate the potential impact of UK spending decisions (with greater uncertainty after the UK spending review period), and the impact of Scottish tax performance.

**Table 1: Resource funding outlook for the Scottish Government**

£ billion	2022-23	2023-24	2024-25	2025-26	2026-27
<b>Central scenario</b>					
Resource funding*	39.2	39.6	40.5	42.1	43.6
<i>Growth compared to 2022-23 budget bill</i>	0.0	0.4	1.2	2.9	4.3
<b>Upside</b>					
Resource funding*	39.7	40.5	42.0	44.5	47.0
<i>Growth compared to 2022-23 budget bill</i>	0.5	1.3	2.7	5.3	7.8
<b>Downside</b>					
Resource funding*	38.9	39.0	39.5	40.3	40.8
<i>Growth compared to 2022-23 budget bill</i>	-0.3	-0.3	0.2	1.1	1.6

\*Excludes non-domestic rates distributable amount

## 2.2 Spending

As context for the Resource Spending Review process, it is helpful to understand the existing landscape of public spending in Scotland, and the financial commitments and risks we need to manage over the spending review period.

### 2.2.1 How has public spending in Scotland evolved?

Scotland's public finances have undergone a number of radical transformations in the past decade. Today, we have increased powers and responsibility over taxation and public expenditure, with the opportunities that brings to improve the lives of the people of Scotland.

Following the Smith Commission in 2014, a new fiscal framework – which governs the funding arrangements between the Scottish and UK Governments – was agreed.<sup>11</sup> It enabled the transfer of greater tax and social security powers to Scotland while endeavouring to retain the stability of block grant funding.

This has transformed the composition of the Scottish budget. In 2019-20, the Scottish budget allocated £435 million to social security benefits spend. In 2022-23, that has grown to £4.1 billion as responsibility for the disability and carer benefits transferred, and new Scottish benefits, including the Scottish Child Payment, have been introduced.

<sup>11</sup> [The Agreement between the Scottish government and the United Kingdom government on the Scottish government's fiscal framework, 2016](#)

In parallel, investment in frontline health services has increased to bolster capacity and support the staff who kept the NHS running throughout the pandemic. In 2019-20 we invested £13.9 billion resource in the health portfolio. In 2022-23, that has grown to £17.1 billion, or 44% of the Scottish resource budget. That invests in the recovery of our health and social care system as we emerge from the pandemic and supports vital steps in increasing social care capacity and setting up a National Care Service.

COVID-19 had a wider impact on the Scottish budget. Over the course of 2020-21 and 2021-22 the Scottish Government received £13 billion in additional resource funding (with a further £500 million expected but subject to confirmation), which allowed us to support those most affected by the pandemic with financial and practical support for businesses, families and communities across Scotland. That funding has been withdrawn in the most recent UK Spending Review, reducing our funding by 7% year on year in real terms, while the real life impacts of COVID-19 continue to be felt.

At the time of the 2021-22 Scottish Budget, commentators noted that one-off COVID-19 consequentialia had been used to fund recurring activity such as mental health support. This reflects the reality of the pandemic: the virus has not gone away, and its effects will not end on 31 March 2022. Many families and businesses are still grappling with rising prices and an uncertain future and children are still living in poverty. There is a continuing need to invest and rebuild our public services for those who need them most.

### 2.2.2 The spending outlook in December 2021

The Scottish Budget 2022-23 sets out how we will use the £39.2 billion resource funding available to us in 2022-23. Among other investment:

- The Scottish Child Payment will be doubled to £20 a week from April 2022, and extended to under 16s by the end of 2022 to lift 44,000 children out of poverty.
- £10 million will be invested in holiday childcare for low income families and £3 million in early phasing of wraparound childcare to deliver our Covid Recovery Strategy commitment and contribute to tackling child poverty.
- The Scottish Budget 2022-23 includes £110 million to extend free bus travel to under 22's, £303 million to support bus services, and £150 million to support active travel.
- It provides £6 million for the Climate Justice Fund, as part of our commitment to help the countries most effected by climate change, yet least responsible, and the first £20 million of the 10-year, £500 million Just Transition Fund.
- Business rates measures will invest £726 million to help businesses get back on their feet after the pandemic and £50 million in targeted employment support will help young people who face long-term scarring effects from the pandemic through our Young Person's Guarantee

The Resource Spending Review will build on this foundation, by focusing public spending on delivering effective services within sustainable financing. The review will underpin how we reform public services to meet the needs of a society altered by the experiences of the pandemic while continuing to face the global challenge of the climate emergency.

### 2.2.3 Spending scenarios

We have a duty to ensure that our policies and the services we deliver are financially sustainable so we can meet the needs of future generations as well as our own.

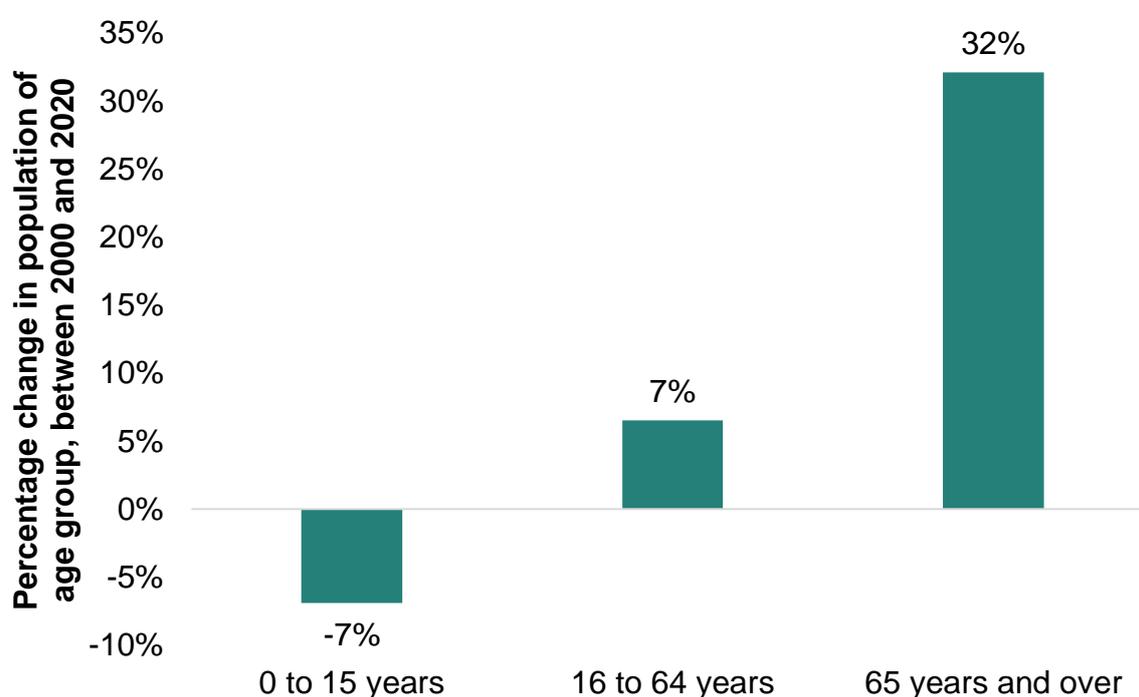
While often changes in the needs of service users emerge over a longer time period, sometimes they shift suddenly – as we saw during the pandemic. We have explored the primary drivers of public spending over the spending review period in this section, and modelled high, low and mid spending trajectories to illustrate the pressures and variables we must consider in developing sustainable spending plans.

#### Demographic change

The Scottish population is expected to fall by around 19,000 over the next 6 years, between 2021 and 2027, and the working age population aged 16 to 64 is expected to decline by 60,000 over the same period according to forecasts from the SFC.<sup>12</sup>

This affects both the funding available and the demands on public services. A decline in the working age population slows economic growth and curbs a government’s ability to raise taxes. In Scotland, this effect can be magnified by the Fiscal Framework mechanism which measures the relative performance of Scottish and rUK tax revenues at a time when the total UK working age population is expected to increase.<sup>13</sup>

Figure 1: Population growth



More pertinently for the Resource Spending Review, the population aged over 65 is expected to grow by 119,000 over the next five years. This is welcome progress, as people in

<sup>12</sup> Scottish Fiscal Commission, [Scotland’s Economic and Fiscal Forecasts](#), December 2021

<sup>13</sup> Office for National Statistics, [Principal Projection – England and Wales Summary](#), October 2019

Scotland will contribute in many ways over their longer lifetime. The change entails a shift in patterns of economic participation and in the need for public services across the population. Poor health and complex care needs are more present in an older population which leads to an increased need for health and social care and for financial support through the social security system.

The Feeley Report on Adult Social Care<sup>14</sup> has estimated that approximately 36,000 people in Scotland would benefit from but do not currently access social care support, and the cost of that unmet need is estimated at £436 million.

The report also emphasised the need for continued investment in social care, and referred to the Health and Social Care Medium Term Financial Framework (MTFF) published in 2018<sup>15</sup>. The MTFF projected that, if the system does not adapt or change, social care expenditure could be expected to grow by 4% per annum. This reflected inflationary and demographic effects, which are intensified in a service which supports the very elderly. This projection pre-dates the pandemic, which we know has exacerbated pressures on social care, so the underlying assumptions do need to be revisited. However, it illustrates potential growth in social care costs over the spending review period driven by the demographic and workforce pressures we are already witnessing:

**Table 2: MTFF modelled growth in adult social care expenditure +/-1%**

£ billion	2022-23	2023-24	2024-25	2025-26	2026-27
<b>Mid scenario<sup>16</sup></b>	<b>4% annual growth</b>				
Adult social care expenditure	4.0	4.1	4.3	4.5	4.6
<i>Growth compared to 2022-23 (mid scenario)</i>		0.2	0.3	0.5	0.7
<b>Low scenario</b>	<b>3% annual growth</b>				
Adult social care expenditure	4.0	4.1	4.2	4.3	4.5
<i>Growth compared to 2022-23 (mid scenario)</i>		0.1	0.2	0.4	0.5
<b>High scenario</b>	<b>5% annual growth</b>				
Adult social care expenditure	4.1	4.3	4.5	4.7	4.9
<i>Growth compared to 2022-23 (mid scenario)</i>		0.3	0.5	0.8	1.0

Policy interventions are required to maintain the affordability of public services over the medium to long-term, and ensure they continue to meet the needs of the people of Scotland. This requires efficient service delivery, as well as a focus on demand management

<sup>14</sup> [Independent Review of Adult Social Care - gov.scot \(www.gov.scot\)](https://www.gov.scot/publications/independent-review-of-adult-social-care/pages/1-to-100.aspx)

<sup>15</sup> Scottish Government (2018), [Health and Social Care: medium term financial framework](#), October 2018

<sup>16</sup> [Scottish Local Government Finance Statistics 2019-20](#), April 2021: Local authorities reported expenditure of £3.5 billion on Adult Social Care in 2019-20, the most recently available statistics. We have applied the growth rate to reach 2022-23 estimated expenditure.

through self-care, prevention and health improvement. The creation of the National Care Service is part of our response to this challenge. We anticipate that social care delivered through the National Care Service will represent a growing proportion of the Scottish budget over the coming years. However, preventative spend and person-centred delivery of support will reduce demand for other public services, and not least on the NHS. A number of measures are being taken forward now to increase capacity while we work to establish the National Care Service.

Another area affected by demographic change is social security. Social security payments currently represent £4.1 billion of the annual Scottish budget (10%), but are expected to reach £5.5 billion by 2026-27. Over 80% of social security benefits expenditure relates to disability benefits. The state pension and universal credit remain reserved.

Expenditure on social security benefits is determined by the number of people who apply for support, with those considered eligible paid at the rate set in the policy. We must meet this expenditure as it arises. That means that getting benefits policy right at the outset is vital to ensure that people receive the support they need within an affordable system that does not impact the quality of wider public services they may also rely on.

It also means that we cannot set a fixed envelope for social security spend each year. Instead, the SFC forecasts social security spend over a rolling five-year period based on confirmed benefits policy of the Scottish and UK governments, the number of people they expect to receive payments (the caseload) and how much they expect people to receive (payment rates).

A degree of error in forecasts is always expected due to the demand-led nature of benefits. Changes in policy also only enter the forecasts after they have been confirmed. The forecasts are a central estimate in a range of possible outcomes. The SFC has calculated that there was a variation of 3% between forecast and actual spend in 2020-21, over half of which reflected new Scottish Government spending decisions during the pandemic: for example, the Coronavirus Carers Allowance Supplement and the Self-Isolation Support Payment were introduced in 2020-21 as a response to the pandemic and could not have been known when SFC prepared their forecast in 2020.

Forecast error generally increases the further into the future analysts project due to the greater uncertainty as we move away from the current position. As the devolved Scottish benefits system is relatively new, we do not yet have the data to assess forecast errors across the benefits over more than one year. Instead, we have analysed variation between UK benefits payments and OBR forecasts over a number of years and applied it to current SFC forecasts to illustrate the potential range of costs over the Spending Review period.

The forecast error in UK payments over this period was higher than has historically been the case, particularly further out, due to the introduction of Personal Independence Payment, and the increased forecast uncertainty when new benefits data is introduced. However, we consider this an appropriate benchmark given the SFC will also be forecasting benefits spend for new Scottish policy, without historic data. There is considerable uncertainty in 2022-23 as a result of the launch of the new Adult Disability Payment for example.

Modelling does not yet include the forthcoming Scottish replacements for the Attendance Allowance, Carer’s Allowance, Winter Fuel Payment or Industrial Injuries Disablement Benefit, which are currently delivered on our behalf by the Department for Work and Pensions and forecast based on current DWP policy. Typically, we have found that the differing approach taken in Scotland, based on our core principles of dignity, fairness and respect, has resulted in higher benefits expenditure than the block grant funding provides. For this reason, we consider the low scenario to be extremely unlikely, as current forecasts based on DWP policy are likely to underestimate benefits expenditure once Scottish replacements are fully implemented.

**Table 3: Modelled effect of forecast error based on rUK historic data**

£ billion	2022-23	2023-24	2024-25	2025-26	2026-27
<b>Mid scenario (SFC forecasts)</b>					
Benefits expenditure	4.1	4.7	5.0	5.2	5.5
<i>Growth compared to 2022-23 Budget Bill</i>		0.6	0.9	1.2	1.4
<b>Low scenario (less OBR forecast error)</b>	<b>-6%</b>	<b>-10%</b>	<b>-16%</b>	<b>-19%</b>	<b>-22%</b>
Benefits expenditure	3.8	4.2	4.2	4.3	4.3
<i>Growth compared to 2022-23 Budget Bill</i>	-0.3	0.1	0.1	0.2	0.2
<b>High scenario (plus OBR forecast error)</b>	<b>6%</b>	<b>10%</b>	<b>16%</b>	<b>19%</b>	<b>22%</b>
Benefits expenditure	4.3	5.1	5.7	6.2	6.7
<i>Growth compared to 2022-23 Budget Bill</i>	0.3	1.0	1.7	2.1	2.7

### Demand on the health service

There is a global tendency for health system costs to rise beyond what can be attributed to demographic change and at a greater rate than economic growth, as set out in the 2019 OECD report: ‘Health Spending Projections to 2030: New results based on a revised OECD methodology’<sup>17</sup>. This is because as medical advancements progress, which we should proudly celebrate, interventions also get more costly, last longer and are needed by a greater number of individuals. This means that just as people live longer, they also have more complex needs for a longer period of time.

Changes in demography (an aging population) are predicted to drive approximately a quarter of growth in health spend to 2030. The OECD identified three other significant drivers of growth:

- Demand for higher quality and more accessible services

<sup>17</sup> OECD, [Health Spending Projections to 2030 : New results based on a revised OECD methodology](#), May 2019

- Rising costs, with productivity gains made more challenging by the labour-intensive nature of health care
- Technological advancement extending the scope of health services and driving demographic change as life expectancy lengthens, but people may require long-term support for chronic or multiple illnesses

The OECD recognised that demand without intervention, and therefore costs, will have an upward trajectory over time. It also recognised that the cost of a health system can be reduced through greater cost control, improved health outcomes, and preventative spend.

Similarly, published in 2018 the Scottish Government's Health and Social Care Medium Term Financial Framework (MTFF), set out drivers of demand for health and social care services and the intended approach to secure financially balanced and sustainable health and care services. It suggested that if the system does not adapt or change, health expenditure could be expected to grow by around 3.5% per annum.

We know that these pre-existing financial and performance pressures within the health and care system have been exacerbated by the pandemic and, as a result, financial assumptions underpinning previous demand trajectories will need to be revisited, along with approaches to balancing the system. The Resource Spending Review will consider this. In the meantime, the MTFF model illustrates the pressures on health funding over the spending review period.

**Table 4: MTFF modelled growth in health spend +/-1%**

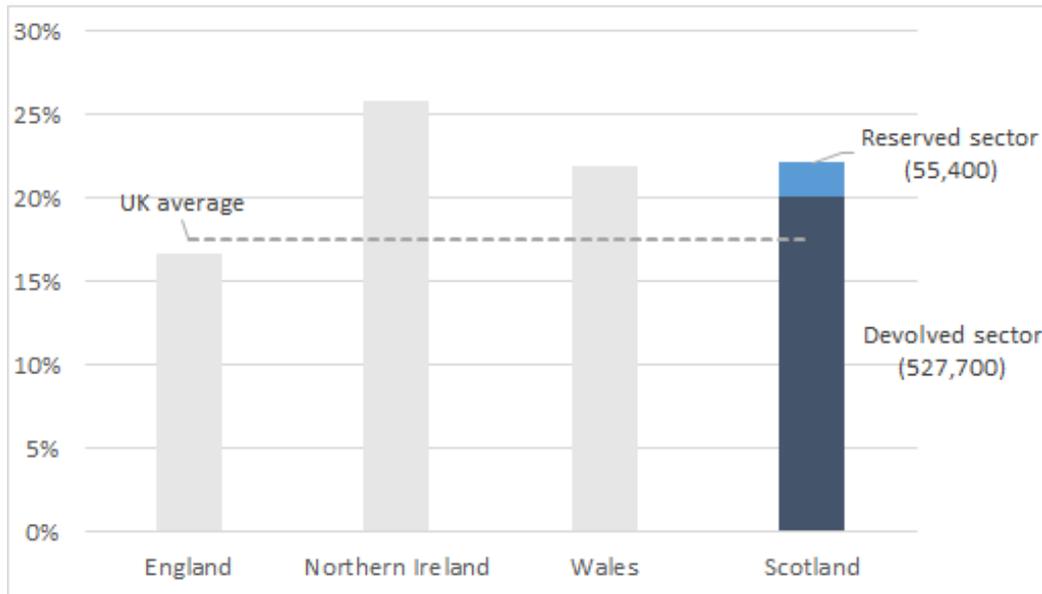
£ billion	2022-23	2023-24	2024-25	2025-26	2026-27
<b>Mid scenario</b>	<b>3.5% growth</b>				
Health expenditure	17.1	17.7	18.3	19.0	19.6
<i>Growth compared to 2022-23 Budget Bill</i>		0.6	1.2	1.9	2.5
<b>Low scenario</b>	<b>2.5% growth</b>				
Health expenditure	17.1	17.9	18.7	19.5	20.4
<i>Growth compared to 2022-23 Budget Bill</i>		0.8	1.6	2.4	3.3
<b>High scenario</b>	<b>4.5% growth</b>				
Health expenditure	17.1	17.9	18.7	19.5	20.4
<i>Growth compared to 2022-23 Budget Bill</i>		0.8	1.6	2.4	3.3

### Public sector workforce

Public sector pay is expected to cost around £21.1 billion in 2022-23, which is over half of the Scottish resource budget. As we all saw and recognised during the pandemic, public sector workers play a vital role in keeping the country going during difficult times, and continued investment in our workforce will be essential as we rebuild and refocus on our long-term priorities.

The size and distribution of the workforce in the devolved public sector (which covers those bodies that are the responsibility of the Scottish Government or the Scottish Parliament, such as the local authorities and Scottish health boards, rather than the UK Government, such as HMRC) is therefore a significant driver both of public sector expenditure and the quality of our public services. As of June 2021 583,100 individuals, representing around 22% of all Scottish workers, worked in the public sector. These workers represent roughly 10% of the UK public sector workforce. Around 48% of these workers are in local government and 34% in the NHS, and we are aware that 65% of the public sector workforce are women. Overall, the Scottish public sector is proportionally larger than the UK average of 18%, with the share in England being 17%.

**Figure 2: Proportion of people employed by the public sector; UK nations headcount (2021 Q2)**



Sources: Public Sector Employment (Office for National Statistics); Public Sector Employment in Scotland (Scottish Government)

Over the last five years the number of public sector devolved workers has increased on average by 1% each year. Over the coming years, we anticipate the public sector will continue to grow to deliver our new social security benefits and invest in our social care workforce through the National Care Service.

To illustrate the potential future costs, based solely on historical trends on growth, we have modelled three scenarios based on assumptions around the pay award and future workforce growth.

**Table 5: Illustrative public sector pay growth**

£ billion	2022-23	2023-24	2024-25	2025-26	2026-27
<b>Mid scenario</b>	<b>2% pay award; 1% workforce growth</b>				
Public sector pay	21.1	21.7	22.3	23	23.7
<i>Growth compared to 2022-23</i>		0.6	1.2	1.9	2.6
<b>Low scenario</b>	<b>1% pay award; 0.5% workforce growth</b>				
Public sector pay	21.1	21.4	21.7	22	22.4
<i>Growth compared to 2022-23</i>		0.3	0.6	0.9	1.3
<b>Upper scenario</b>	<b>3% pay award; 1.5% workforce growth</b>				
Public sector pay	21.1	22.0	23.0	24.0	25.0
<i>Growth compared to 2022-23</i>		0.9	1.9	2.9	3.9

### Inflation

Inflation reached 4.2% in October, the highest rate in almost 10 years. Many economists believe that this high level of inflation is temporary, and reflects short-term supply chain issues and labour shortages as a result of EU Exit and the pandemic.

If high inflation continues, it may put pressure on public finances in a number of ways. We are likely to see increases in the running costs of the Scottish Government and its agencies as suppliers pass on higher costs for goods and services, such as energy or IT. Similarly, we may see the effects through higher demand for public services as the cost of living crisis bites, and an increase in the grant funding required to support our third sector partners in their essential work. In other areas, such as borrowing, rates are directly linked to inflation.

We have modelled three scenarios: inflation at the OBR rate and +/-1%, and applied it to all non-staff costs outside health and social security benefits (which have been modelled separately above).

**Table 6: Effect of OBR inflation forecasts +/-1%**

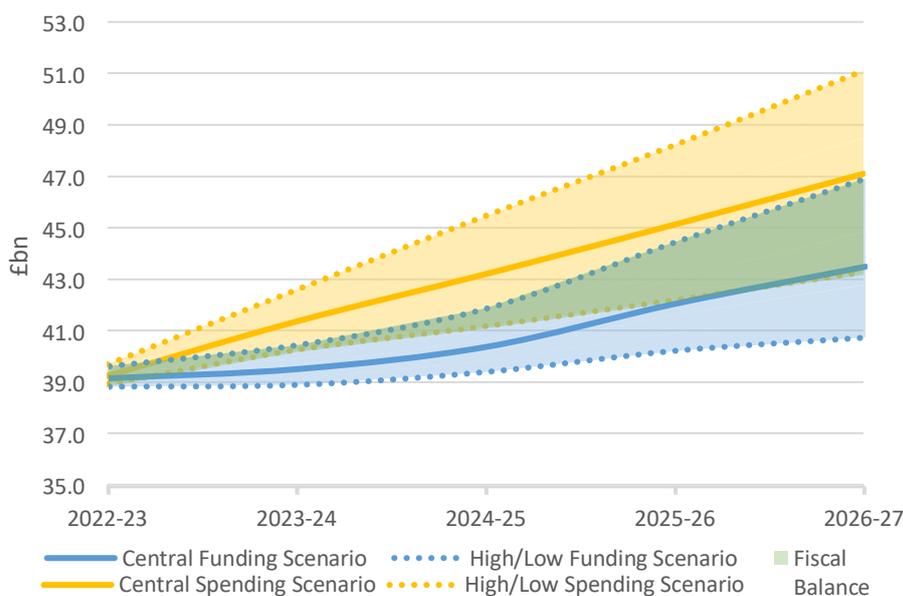
£ billion	2022-23	2023-24	2024-25	2025-26	2026-27
<b>Mid scenario</b>	<b>3.7%</b>	<b>2.3%</b>	<b>2.0%</b>	<b>2.0%</b>	<b>2.0%</b>
All other expenditure	7.2	7.4	7.5	7.7	7.9
<i>Growth compared to 2022-23 Budget Bill</i>		0.2	0.3	0.5	0.6
<b>Low scenario</b>	<b>2.7%</b>	<b>1.3%</b>	<b>1.0%</b>	<b>1.0%</b>	<b>1.0%</b>
All other expenditure	7.2	7.3	7.3	7.4	7.5
<i>Growth compared to 2022-23 Budget Bill</i>	-0.1	0.0	0.1	0.2	0.2
<b>High scenario</b>	<b>4.7%</b>	<b>3.3%</b>	<b>3.0%</b>	<b>3.0%</b>	<b>3.0%</b>
All other expenditure	7.3	7.5	7.8	8.0	8.2
<i>Growth compared to 2022-23 Budget Bill</i>	0.1	0.3	0.5	0.8	1.0

#### 2.2.4 What does this mean?

In reality, we know that public spending will mirror the funding forecasts set out in the MTFS, unless there are significant changes to the Fiscal Framework or our tax measures. The UK Spending Review raised the block grant above our pre-pandemic expectations but, compared to 2021-22, it reduced the funding available to Scottish Government for our day-to-day spend every year, despite the continuing effects of the pandemic and the economic impact of the UK's exit from the EU.

The drivers of public spending identified above illustrate the variable and growing demands on public funding over the spending review period. If we compare our central funding forecast with our mid spending projection, this suggests a growing gap which reaches approximately £3.5 billion in 2026-27. At the extremes, the low funding compared with the high spending trajectory opens an estimated gap of approximately £10.3 billion in 2026-27, while a high funding combined with a low spending trajectory gives a £3.7 billion surplus.

**Figure 3: Modelled funding and spending scenarios (£ billion)**



These are not forecasts, and the wide range demonstrates the inherent uncertainties. However, they illustrate the need for a robust Resource Spending Review to help us make informed decisions about how we best use the funding available to meet the evolving needs of the population.

With limited resources, increased investment in the Scottish Government’s priorities will require efficiencies and reductions in spending elsewhere: we need to review long-standing decisions and encourage reform to ensure that our available funding is delivering effectively for the people of Scotland. The Resource Spending Review will, through evidence and consultation, develop four-year spending plans with the aim of managing the financial risks we face and maximising the impact of our available funding.

As a responsible Government, we must rise to the challenges of the future by putting our public finances on a sustainable trajectory. The OECD defines fiscal sustainability as ‘The ability of a government to maintain public finances at a credible and serviceable position over the long term’. Largely this means maintaining sustainable levels of public debt in proportion to the size of a national economy. In the current constitutional settlement, the Scottish Government’s borrowing and reserve powers are tightly constrained. This eliminates some of the risks faced by a sovereign government, such as debt levels becoming unsustainable. It also removes the flexibilities enjoyed by sovereign governments to smooth public funding over a number of years or to borrow to fund recurring expenditure.

The MTFs published alongside this document sets out the fiscal risks we have to manage and our strategy for doing so in the context of limited existing fiscal levers. However, fiscal sustainability is not simply about balancing the budget every year, or even in a multi-year setting. It is about being able to ensure that we use limited resources as efficiently and effectively as possible to make progress towards our priorities and the national outcomes. This is what the Resource Spending Review aims to achieve - ensuring that the medium and longer-term impact of the decisions we make now promote the kind of future we want to build.

Q2. In Chapter 2 we have identified the primary drivers of public spending over the Resource Spending Review period including:

- Changing demographics
- Demand on the health service
- Public sector workforce
- Inflation

We welcome your views on these and any other public spending drivers you think we should consider.

Q3. In Chapter 2 we have identified the growth of the public sector workforce as a key driver of public spending. How can we use policy interventions to maximise the value achieved from the public sector workforce in the effective delivery of public services, while ensuring the sector is an attractive, rewarding place to work?

We welcome your views on this.

### 3. Our Approach

This chapter outlines the proposed approach for the Scottish Government's Resource Spending Review process, including our priorities for the spending review period. It outlines how we will consider public spending and optimise outcomes within the funding and fiscal levers available to us.

#### 3.1 Our priorities

The choices made around the allocation of funding will profoundly shape the nature and impact of public services and policy interventions in Scotland. It is important that we define the core priorities against which to appraise potential spending plans.

As noted previously three core priorities have been identified for the 2022-23 Budget and the Resource Spending Review:

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

It is our assessment that delivery of these three priorities will be at risk unless this Resource Spending Review prioritises spending more explicitly in support of activity to advance the achievement of their targets. Therefore we will apply criteria in support of these three priorities through our process.

Further pragmatic criteria will need to be deployed in the analysis of spending plans – particularly in the case of spending to sustain the NHS or to meet legal or statutory commitments. However, these three priorities will remain at the core of our work.

#### 3.2 Our principles

Given the challenges facing the public purse outlined in the previous chapter, it is imperative that public spending is deployed as efficiently and effectively as possible. Setting multi-year financial plans generates the opportunity to move towards longer term delivery planning which is necessary to support deeper reform. Across our portfolios, we hear consistently from stakeholders that annual budgeting restricts them to short-term decision making. We are hopeful that the resource spending review will support the ambition to drive reform programmes of change for better outcomes across the policy landscape.

To do this, we will structure our work around three principles:

- **Outcomes focused:** Our review will focus on how the delivery of positive outcomes for the people of Scotland are best supported. Budgets are often framed as input mechanisms, but as we examine the effectiveness of spend across portfolios, we will maintain a longer-term outcomes focus to inform decisions. We shall consider the impact of spending and specifically how it contributes to tackling inequality and realising human rights. We recognise that in developing plans for public spending that we are not all starting from an even playing field. Ultimately this focus on outcomes supports the National Performance Framework which set out the National Outcomes that Scottish Government seeks to deliver. These outcomes have been developed to reflect the values and aspirations of the people of Scotland, are aligned

with the United Nations Sustainable Development Goals and help to track progress in reducing inequality. Our mission and Resource Spending Review priorities sit within this context.

- Evidence informed: Our work will be underpinned by an evidence-based assessment of how well our spending delivers for the core priorities of the Scottish Government, and how our spending meets the central principles of fiscal sustainability. This will include identifying where there is a need to develop further tools for monitoring and evaluating spend over the longer term.
- Consultative: We will adopt a consultative approach to ensure that citizens', stakeholders' and delivery partners' voices influence our spending plans, and that this review is part of a longer-term journey to better public engagement on Scotland's fiscal future (see Chapter 4 for more details on the Resource Spending Review Conversation).

### 3.3 Funding our priorities

As Chapter 2 demonstrated, we will need to adapt and future-proof our public spending to meet the changing needs of the people of Scotland, and deliver our mission.

As already noted, the Scottish Government faces significant challenge in relation to its funding position. In order to provide additional funding towards our priorities we need to ensure that our public funds are used to optimal effect. Therefore efficiency, effectiveness and value for money will be crucial to how we review spending across the Scottish Government, and central to the robust challenge process we will undertake.

Preparatory work during 2021 has identified a number of ways to approach this challenge. They are heavily informed by the principles of the Christie commission's report on the future of public services<sup>18</sup>, which was published in 2011:

- Empower individuals and communities
- Integrate service provision
- Prevent negative outcomes from arising
- Become more efficient by reducing duplication and sharing services

The ways of considering public spending that we have identified are:

- Cross-government collaboration: we will identify where there may be shared interest, duplication or overlap in intended policy outcomes over multiple portfolios. Where there is, we will look to develop a more effective and efficient cross-government solution.
- Public service reform: as well as challenging portfolios, we will also examine discrete opportunities for longer-term, large-scale public service reform and transformation that leads to both beneficial outcomes for our citizens and the realisation of more fiscally sustainable delivery mechanisms.

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<sup>18</sup> [Christie Commission on the future delivery of public services](#)

- Prevention: we will consider options to redirect funding towards demonstrable preventative approaches. Effectively targeted preventative programmes can improve service delivery and achieve outcomes whilst reducing demand on public services and, consequently, costs to the public purse.
- The public sector workforce: we will consider the capacity and distribution of our public service workforce in Scotland to ensure that it is fit for purpose and is future-proofed. We will consider public sector reward to ensure that our valuable public servants are rewarded fairly.
- Better targeting: we are investigating whether there are opportunities to refine the targeting of some policies in order to focus on achieving outcomes for those most in need, whilst releasing funding to be put towards other measures.
- Targeted revenue raising: we will investigate discrete opportunities to raise revenue, for example, options for fees and charges associated with spending decisions. Any ideas identified will be carefully considered to ensure they are proportionate.

Any changes to devolved taxation will be considered in line with the Scottish Approach to Taxation, as set out in Scotland’s Framework for Tax, which will be published shortly. The revenues generated from devolved and local tax powers play an increasingly important role in determining the overall funding for the Scottish Budget.

We will continue to progress these opportunities throughout the process of the Resource Spending Review, alongside any others identified through engagement or in the process of the internal review. Any viable opportunities will be assessed for potential equality impact and included in the findings of our final publication.

### 3.4 Equality

The Resource Spending Review’s process and findings will be subject to appropriate impact assessments, taking into account the Scottish Government’s responsibilities under both the Public Sector Equality Duty and the Fairer Scotland Duty as well as our human rights commitments.

We will work with the Equality Budgeting Advisory Group to ensure that a proportionate and robust approach is taken across the whole of the process.

Q4. In Chapter 3 we have identified a number of ways in which we will be exploring how to get best value out of Scotland’s public spending, including:

- Improving cross-government collaboration
- Public service reform
- Prevention and invest to save initiatives
- The public sector workforce
- Better targeting
- Targeted revenue raising

We welcome your views on these, and other ways to maximise the positive impact of public spending.

Q5. In Chapter 3 we have shared that we will be conducting an equality assessment of the Resource Spending Review's findings.

We welcome your views on any particular equality and human rights impacts which we should consider in the context of the priorities (question 1) and primary drivers of public spending (question 2) we have set out.

#### 4. The Resource Spending Review Conversation

The fiscal landscape has altered significantly since the previous Scottish Spending Review, and the way in which we develop our multi-year spending plans has changed too. As the nation and government embrace new powers and responsibilities, we do so with a commitment to transparency and engagement. This consultative process will be part of a longer term ‘conversation’ about fiscal sustainability with people and organisations across Scotland.

The Scottish Government is a member of the Open Government Partnership (OGP) and improving fiscal openness and transparency is a key commitment in Scotland’s next OGP Action Plan (2021-25). In accord with the Written Agreement with the Finance and Constitution Committee of Session 5 of the Scottish Parliament the Capital Spending Review in 2021 was informed by public engagement. We have also recently consulted on Scotland’s first Framework for Tax and the Budget. Consulting on the Resource Spending Review is another step on this engagement journey.

Across this activity we are looking to improve fiscal transparency, while reviewing the accessibility and usability of existing and future information and guidance. We have also committed to improve engagement and participation to enable a fuller understanding of how the public finances are managed, and to enable stakeholders to explore how, where and why decisions are taken in relation to resource funding. So, in addition to approaching this review with an outcomes focus and an emphasis on evidence, we also envision this as a consultative process.

To do this we are:

- Creating opportunities for people to contribute their views on questions related to the review – see online details [here](#)
- Connecting with Parliamentarians and stakeholders with an interest in this spending review
- Engaging with a range of organisations and representative groups to hear their views on the questions related to the review
- Gathering views on the best ways to take forward ‘the fiscal conversation’ during and after the Resource Spending Review process

From the date of publication, we are opening a period of engagement until 27 March 2022. All our consultation questions are listed in Annex A. If you are unable to use the online consultation link shared above, please email [ResourceSpendingReview@gov.scot](mailto:ResourceSpendingReview@gov.scot).

The below table provides an overview of the process and key dates:

<b>Date</b>	<b>Activities</b>
9 December 2021	Framework published
9 December 2021	Consultation opens
27 March 2022	Consultation closes
TBC Spring 2022	UK Spring Statement – budgets reviewed in light of this
March and April 2022	Internal allocations process
May 2022	Resource Spending Review published

Q6 In Chapter 3 we shared that this Resource Spending Review is taking a consultative approach to ensure that we engage with people and organisations across Scotland as we develop multi-year financial plans. Our intention is to use the Resource Spending Review to continue the Scottish conversation on public spending going forwards.

We welcome your views on how best to continue our engagement with people and organisations after the Resource Spending Review.

## List of acronyms

AME	Annually Managed Expenditure
COP26	26th United Nations Climate Change Conference of the Parties
COVID-19	Coronavirus Disease 2019
DWP	Department for Work and Pensions
EU	European Union
GDP	Gross Domestic Product
HM	Her Majesty's
HMRC	Her Majesty's Revenue & Customs
IMA	Internal Market Act
IT	Information Technology
MSP	Member of the Scottish Parliament
MTFF	Health and Social Care Medium Term Financial Framework
MTFS	Medium-Term Financial Strategy
NHS	National Health Service
OBR	Office for Budget Responsibility
OECD	Organisation for Economic Cooperation and Development
OGP	Open Government Partnership
rUK	Rest of the United Kingdom (i.e. England, Wales and Northern Ireland)
SFC	Scottish Fiscal Commission
TBC	To be confirmed
UK	United Kingdom

## Glossary

Austerity	A set of policies that aim to reduce government budget deficits, usually through spending cuts, tax increases, or a combination of both.
Barnett Formula	A formula used by the HM Treasury to calculate consequentialia which form the Block Grant to devolved governments in Scotland, Wales and Northern Ireland. The Barnett formula seeks to give these governments a proportion (or consequential) of UK expenditure incurred in policy areas which are devolved.
Budget	A document prepared by the government to present its anticipated tax revenues and proposed spending/expenditure for the coming financial year.
Block grant	The grant received by the Scottish Government made up of consequentialia of UK expenditure, calculated by the Barnett Formula.
Block grant adjustment	Deductions from the Scottish Government's total Block Grant to reflect devolved tax receipts or social security expenditure.
Capital spending	Money spent on providing or improving non-current assets, which include land, buildings and equipment, which will be of use or benefit in providing services for more than one financial year.
Capital Spending Review	A review to balance the capital spending ambitions of the new Scottish Government within its fiscal constraints.

Climate emergency	A situation in which urgent action is required to reduce or halt climate change and avoid potentially irreversible environmental damage resulting from it.
Climate justice	A climate justice approach recognises that it is those least responsible for the global climate emergency that are being affected first and most severely by it.
Consequential	A Barnett Consequential is the change to a devolved administration's assigned budget as a consequence of changes in spending by the UK Government.
Demand-led	Refers to expenditure which can be predicted at the beginning of the year e.g. the payment of benefits which will depend on the number of eligible claimants. Usually managed through Annually Managed Expenditure (AME).
Fair work	Work that offers effective voice, opportunity, security, fulfilment and respect; that balances the rights and responsibilities of employers and workers and that can generate benefits for individuals, organisations and society.
Fiscal framework	The Fiscal Framework agreement was published alongside the Scotland Act 2016 setting out the new funding arrangements, fiscal rules and borrowing powers for the Scottish Government.
Funding outlook	Projection of future funding built up by forecasting separate elements of funding and then aggregating these to produce a path for the total level of potential funding.
Gross domestic product	A measure of the size and health of a country's economy over a period of time (usually one quarter or one year).
Just transition	A just transition is both the outcome – a fairer, greener future for all – and the process that must be undertaken in partnership with those impacted by the transition to net zero. Just transition is how we get to a net zero and climate resilient economy, in a way that delivers fairness and tackles inequality and injustice.
National outcomes	The Scottish Government's broad policy aims.

Net zero	Achieving an overall balance between emissions produced and emissions taken out of the atmosphere.
Priority families	Six household types identified within the Tackling Child Poverty Delivery Plan (2018-22) <sup>19</sup> as being at higher risk of child poverty.
Resource Spending	Money that is spent on day-to-day resources and administration costs.
Resource Spending Review	A review to balance the resource spending ambitions of the new Scottish Government within its fiscal constraints.
Scotland Reserve	Enables the Scottish Government to manage volatility associated with the fiscal powers.
Social security	Monetary assistance from the state for people with an inadequate or no income.
UK Spending Review	Allocation of funding to government departments.
Universal credit	A UK social security payment to help eligible individuals pay for living costs.
Wellbeing economy	An economy that is inclusive and that promotes sustainability, prosperity and resilience, where businesses can thrive and innovate, and that supports all of our communities across Scotland to access opportunities that deliver local growth and wellbeing.

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<sup>19</sup> Scottish Government, [Every child, every chance: tackling child poverty delivery plan 2018-2022](#), March 2018

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Figure 2: Proportion of people employed by the public sector; UK nations headcount (2021 Q2)

Figure 3 Modelled funding and spending trajectories

# ANNEX

## ANNEX A: Consultation Questions

Q1. In Chapter 1 we have identified three priorities to guide the Resource Spending Review process:

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

Setting these as priorities helps us consider where spend should be targeted and re-directed. Do you agree that our resource spending should focus on these?

We welcome your views on these three priorities for this Resource Spending Review.

Q2. In Chapter 2 we have identified the primary drivers of public spending over the Resource Spending Review period including:

- Changing demographics
- Demand on the health service
- Public sector workforce
- Inflation

We welcome your views on these and any other public spending drivers you think we should consider.

Q3. In Chapter 2 we have identified the growth of the public sector workforce as a key driver of public spending. How can we use policy interventions to maximise the value achieved from the public sector workforce in the effective delivery of public services, while ensuring the sector is an attractive, rewarding place to work?

We welcome your views on this.

Q4. In Chapter 3 we have identified a number of ways in which we will be exploring how to get best value out of Scotland's public spending, including:

- Improving cross-government collaboration
- Public service reform
- Prevention and invest to save initiatives
- The public sector workforce
- Better targeting
- Targeted revenue raising

We welcome your views on these, and other ways to maximise the positive impact of public spending.

Q5. In Chapter 3 we have shared that we will be conducting an equality assessment of the Resource Spending Review's findings.

We welcome your views on any particular equality and human rights impacts which we should consider in the context of the priorities (question 1) and primary drivers of public spending (question 2) we have set out.

Q6. In Chapter 3 we shared that this Resource Spending Review is taking a consultative approach to ensure that we engage with people and organisations across Scotland as we develop multi-year financial plans. Our intention is to use the Resource Spending Review to continue the Scottish conversation on public spending going forwards.

We welcome your views on how best to continue our engagement with people and organisations after the Resource Spending Review.



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