

FINANCE COMMITTEE
DRAFT BUDGET 2014-15
SUBMISSION FROM STUC

Introduction

1. The STUC welcomes the Committee's interest in the National Performance Framework (NPF) as part of its scrutiny of the 2014-15 Scottish Budget.
2. Although comfortable with the general approach provided by the NPF and appreciative of the Scottish Government's on-going commitment to its improvement, the STUC does have some significant concerns over its current design: some targets/indicators/outcomes are inappropriate, there are major gaps in the framework and problems persist with the measurement of progress.
3. The STUC has enthusiastically welcomed recent innovative approaches to the measurement of Scotland's performance such as Oxfam's Humankind Index and encourages the Scottish Government to learn from this work.

Areas in which the NPF could be improved

3. *Primacy of 'sustainable economic growth'*

The STUC is concerned that the whole framework is - or at least is perceived to be - subordinate to the Scottish Government's overarching 'purpose' of *'focusing government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth'*. Whilst the STUC is not anti-growth, there are a number of problems with this target:

- It is a very poor guide to changes in the collective prosperity of the nation;
- It assumes that GDP is a reliable measure of 'sustainable' economic growth;
- It assumes that fluctuations in the level and rate of GDP are primarily determined by the actions of national Government;
- It is a particularly inappropriate measure for a small, open economy like Scotland with high levels of foreign ownership; and
- The data on which performance is assessed could be more timely and reliable.

4. The STUC is not against GDP being part of the measurement framework. Criticisms of GDP all too often focus on the erroneous political reaction to its fluctuations and causes and ignore the value in having a reliable measurement of aggregate output. GDP provides such a measure albeit imperfectly. Indeed, GDP's imperfections and inadequacies have in fact been well recognised since the first days of national accounting.

Profile and Clarity

5. Beyond the small community of people with a keen interest in policy, the STUC believes the NPF has a very low profile and has little if any relevance to the way most people judge the performance of the Scottish Government.

6. The presentation of the NPF on the Scottish Government's website is messy and confusing. The ways in which the purpose targets, national indicators and national outcomes interrelate could be much clearer.

Relevance

7. The STUC believes there are serious problems in setting targets in areas where the Scottish Government has little or limited influence. The following list is not exhaustive and looks only at the purpose targets:

- *GDP*: as mentioned above, the Scottish Government has very little influence over the rate and level of GDP growth. If Scotland had borrowing powers and was able to invest significantly at times of low aggregate demand, then yes, it would be able to boost short-term growth. However, even if we accept that national governments can affect long-run growth through policy (and this is highly contentious), doing so in a small open economy like Scotland over the target timescales is near impossible;
- *Exports*: increasing the level of exports in the Scottish economy is not just a function of boosting supply over which the Scottish Government might expect to exert (limited) influence. It's also depends on the ability of export markets to absorb our goods and services. Therefore, even if domestic policy was effective it is entirely possible that the level of exports could fall in a struggling global economy;
- *Participation*: the Scottish Government has limited economic powers, limited control over active labour market policy and no responsibility whatsoever for regulation of the labour market. Whilst raising participation levels may be a necessary if insufficient condition for improving national collective prosperity, it is an area over which the Scottish Government has very little control.

8. If the Scottish Government has at best very limited influence over these areas, does it make sense to set ambitious targets? The concern here is that good and effective policy may be undermined if the targets are missed. This could set in train a damaging period of pointless policy churn as Government seeks to justify doing something to meet the targets.

Consistency

9. The STUC has previously expressed concern to the EET Committee over the contradictions inherent in the Government's strategy and target regime. For instance we argued in last year's draft Budget submission that '*there is a fundamental disconnect within an economic strategy that aims to reconcile what is euphemistically called a 'supportive business environment' with laudable social objectives*'. We would anticipate next year's budget again sidestepping the difficult decisions and trade-offs (between business and collective prosperity, between growth and sustainability, between profit and wages etc) inherent in such a strategy.

10. Other areas that are at least potentially inconsistent or contradictory include:

- Increasing the business start-up rate (national indicator) and improving productivity (purpose target);
- Most attractive place for doing business in Europe (national outcome) and more and better employment opportunities (national outcome);
- And of course the growth and sustainability purpose targets.

Measurement and Progress

11. There is a general and serious problem with the range and quality of data available with which to assess economic and social performance and outcomes in Scotland. This makes measurement of progress very difficult. Examples include 'More and better employment opportunities' (national outcome): the range, quality and age of labour market information at UK level compares unfavourably with other nations.

12. Problems are amplified at Scottish level where even quite basic statistics are either completely unavailable or only published with a significant time lag. There is therefore a small problem in measuring the 'more' part of the indicator' and a major problem in measuring the 'better' component.

Additional measures required

13. The STUC has recently begun discussing with the Scottish Government ways in which the NPF might be improved. Priority areas for the STUC include:

14. National collective prosperity: as discussed above, GDP is a very poor guide: GDP is currently rising (albeit slowly) but wages are falling. Leaving aside current data problems/gaps it is important that indicators/targets are introduced which better reflect the economic position of Scotland's people. These might include:

- *Median wage*: ONS is currently considering updating UK monthly labour market releases to include this data. These should be published for all ONS nations and regions although that would probably require significant investment; and,
- *Real Household disposable income*: an even better measure given that it includes transfers and benefits.

15. Quality of work: this is of fundamental importance and is an area almost completely overlooked in the current framework. The vague 'more and better jobs' outcome is wholly insufficient. It should also be emphasised that quality of work was identified by both Oxfam and Carnegie as matter on which people place great emphasis.

16. The STUC looks forward to working with the Scottish Government to develop the NPF in this respect. A lot of work has been undertaken by international institutions like the ILO and other nations such as Austria and Australia to develop decent work standards. Developing the same for Scotland and effectively integrating into the NPF should be a priority for the Scottish Government.

17. Equality: the STUC is concerned that the current NPF has not been sufficiently equality proofed. For instance there's no reference to the different

position of men and women in terms of labour market participation or of the distinct challenges currently facing women. It is essential that the Scottish Government works diligently with all key stakeholders to ensure that the NPF adequately reflects the interests and needs of all Scotland's people.

18. The STUC acknowledges that these priorities – particularly collective prosperity and quality of work – are open to the criticisms we have made of the NPF i.e. the Scottish Government has limited influence in these areas. However, if the NPF is to persist along current lines indicators in these areas will introduce much needed balance and should also encourage the Scottish Government to be more active in areas it has hitherto not made a priority.