

Social Justice and Social Security Committee

11th Meeting, 2022 (Session 6), Thursday, 17 March

Financial planning: MTFS and Resource Spending Review Framework

Introduction

This session is to inform the Committee's consideration of two financial planning documents:

- [Medium term Financial Strategy](#) (MTFS), and
- [Resource Spending Review Framework](#)

The Finance and Public Administration Committee has asked for views on the MTFS and the Resource Spending Review Framework is out for consultation until 27 March. The spending review itself is expected in May.

The Committee will hear from

- [Emma Congreve, Fraser of Allander Institute](#), University of Strathclyde. Her particular area of expertise is economic policy relating to low income households
- [David Philips, Institute for Fiscal Studies](#), where he leads on research into devolved and local government finance, including the fiscal framework. His expertise is on budgets rather than on social security policy.

This session is intended to assist the Committee to:

- consider how the MTFS can contribute to year-round budget scrutiny,
- consider whether it wishes to make a further response to the Finance and Public Administration Committee on their review of the MTFS,
- consider whether it wishes to respond to the Scottish Government on its spending review framework consultation, and

- consider the context for the spending review in May.

Background

Medium Term Financial Strategy (MTFS)

The [fourth MTFS was published](#) with the budget on 9 December 2021. Its purpose is to provide context for budget considerations:

“The role of the MTFS is to provide a medium-term perspective on the public finances, supporting a broad approach to budget evaluation and formation. It ensures that both Parliament and Government have foresight of the financial challenges we face and the opportunities that lie ahead. The MTFS also sets out the principles for how the Scottish Government will exercise its borrowing powers and the Scotland Reserve within the constraints of the Fiscal Framework.” (MTFS)

The December MTFS looked across the whole Scottish Government budget and provided information on:

- **Economic outlook.** It presented trends in key economic indicators such as GDP, labour market and inflation. It discussed differences between Scottish Fiscal Commission and Office for Budget Responsibility economic forecasts and recovery from COVID.
- **Fiscal outlook.** It presented an ‘upside’, ‘downside’ and central scenario for funding across the whole budget. The ‘central scenario’ was that UK resource funding will increase from £35.7 billion in 2021-22 to £43.6 billion in 2026-27 (MTFS Table 2).
- **Spending outlook.** It set out “key drivers of spend, such as pay and demand-led social security spend, which may present risks to our spending position in future.”
- **Managing financial risks.** It presented the overall ‘gap’ of £3.5 billion in 2026-27 between funding and spending projections across the entire Scottish budget (MTFS figure 6). It set out how various risks will be mitigated and discussed the limitations of the fiscal framework in managing this difference. It noted that these risks; “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.” (MTFS ch. 4)

Finance and Public Administration Committee request

The Finance and Public Administration (FPA) Committee is undertaking a short review of how well the MTFS fulfils its purpose. Two of the areas being considered are:

- how well the MTFS sets out the future financial implications of current policy decisions
- whether the MTFS provides committees with a hook for scrutiny of the medium-term priorities for, and risks to, the Budget

On 20 January, the Committee wrote to the FPA Committee saying:

“The Committee considers the MTFS could set out how the Scottish Government plans to address the £760m ‘funding gap’ that the Scottish Fiscal Commission refers to.

The Committee is also aware that the independent fiscal framework review could have implications for social security if the method of calculating Block Grant Adjustments is changed. The MTFS does list changes to BGAs but at a high level. The Committee therefore considers the fiscal framework review should be incorporated into the MTFS. Following our evidence session in March, the Committee can share its more detailed findings with the FPA Committee.” ([Letter to FPA Committee, 20th January 2022](#)).

What does the MTFS say about social security and child poverty?

The December MTFS included the following coverage of social security.

- **Funding outlook:** It discussed how funding for social security via Block Grant Adjustments is heavily influenced by UK Government policy decisions and is also affected by Office for Budget Responsibility forecast error. (See MTFS 2.1.3)
- **Spending outlook:** It noted that social security spend is forecast to rise to over £5.3 billion by 2026-27 and discussed the budget volatility associated with demand-led spending. The forthcoming Fiscal Framework Review: “must provide Scotland with the powers and fiscal flexibilities necessary to manage fully the inherent risks in demand-led social security expenditure.” (See section 3.3.1 MTFS).
- **Forecast error:** The Block Grant Adjustments (funding from UK Government) are initially made based on forecasts. They are reconciled twice – initially to updated forecasts and then to outturn. The annexes to the MTFS set out the social security reconciliations which were applied to the 2022-23 budget. The final reconciliation of money spent during 2020-21 adds £22m to the 2022-23 budget. The interim reconciliation of money spent during 2021-22 adds £3m to the 2022-23 budget. Together, these two reconciliations add £25m to the 2022-23 budget. (MTFS tables B.13 and B.14).

In a separate process, throughout the year, the Scottish Government must manage any differences between what the Scottish Fiscal Commission forecast for Social Security spending and actual demand.

The MTFS says; “The Scottish Government will continue to manage any variance between actual and forecast expenditure or BGAs, in a competent, responsible and balanced way as part of the annual budget process, in line with the principles and policies set out the in MTFS”.

- **Demographic change.** The MTFS notes that an ageing population has implications for the demand for social security, as well for the tax base for funding policies. (MTFS 3.3.5)

The December MTFS mentions child poverty once, saying:

“We will ensure that our spending choices support progress towards meeting our ambitious child poverty and climate change targets and secure a stronger, greener, fairer, economy.” (MTFS para 3.2)

Resource Spending Review Framework

The spending review due in May will set out spending plans up to 2026-27. It is the first Scottish spending review since 2011.

The Scottish Government is currently consulting on its Framework for that spending review. [Investing in Scotland’s Future: Resource Spending Review Framework](#) was published along with the draft budget on 9 December 2021. In the forward, Kate Forbes states:

“These will be tough decisions to take.” [...] “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.”

The framework sets out three principles for the spending review. It will be;

- focused on outcomes,
- informed by evidence, and
- include consultation.

The framework sets out the three priorities of;

- child poverty targets
- climate change, and

- a stronger, fairer, greener economy.

The consultation runs to 27 March and the questions are listed at annex A of the framework. In summary they ask for views on:

- The priorities
- The primary drivers of spending
- Maximising value from the public sector workforce
- Getting best value from public spending
- Equality and human rights impacts to be considered
- How to continue engagement after the spending review

What does the framework say about social security and child poverty?

While the framework for the spending review sets out tackling child poverty as one of three government priorities, there is little subsequent discussion of child poverty.

Instead it sets out the general fiscal context and proposes a general approach to considering public funding and spending.

The framework discusses the funding and spending context in similar terms to the MTFS. That is; the challenge of demand-led spending, forecast error, links to UK Government policy through the BGA calculation and limitations of the fiscal framework.

The spending review framework notes the high level of uncertainty in forecasts for current policy such as Adult Disability Payment. It also recognises that:

“Modelling does not yet include the forthcoming Scottish replacements for the Attendance Allowance, Carer’s Allowance, Winter Fuel Payment or Industrial Injuries Disablement Benefit.” (Spending Review Framework p.17)

It suggests that benefit spending could be higher in Scotland once Scottish replacements for these benefits are established, stating 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.” (Spending Review Framework p.17)

It also discusses other drivers of spending such as the growth in the public sector workforce (including the social security workforce), and high inflation.

Role of the Scottish Fiscal Commission

Dame Susan Rice (Scottish Fiscal Commission) wrote to the Committee setting out its role in relation to the MTFs and the Spending Review (included in the meeting papers). Normally, it does not provide costings until detailed policy proposals are available. However, for the resource spending review (RSR) and next MTFs it will produce 'indicative costings' of future planned social security benefits. The letter stated:

"We plan to include indicative costings in our forecasts for additional spending associated with the Scottish Government's planned policy changes; these will be based on discussions with the Scottish Government. The Scottish Government agree with this approach and confirmed they will use our forecasts, including the indicative costings, in the RSR and MTFs.

These indicative costings will be subject to greater uncertainty than a typical estimate of a new policy, which we normally only produce once the full details are clearer, but we believe that it is important to fully reflect known Scottish Government plans in the forecasts of spending being used for a RSR."

THEME 1: Risk to the budget from social security

Before discussing the MTFs and Spending Review Framework in detail, members may wish to explore the level of risk created by demand led social security spending.

In evidence to the Finance and Public Administration Committee, the Cabinet Secretary for Finance and Economy, Kate Forbes referred to the need to manage other budget lines in order to meet social security payments. She said:

"we will need to take intelligent decisions about the nature of social security in order to meet that demand [and] we need to manage other budget lines on a trajectory of getting to a position where we are dealing not with huge cuts but with a plan that gets us there". (FPA Committee Official Report 21 December 2021)

The Finance and Public Administration Committee was also concerned about the impact of social security spending on the rest of the budget. In its report on the 2022-23 draft budget the [Committee recommended](#) that:

"we are concerned at the resulting downward pressure on other budget lines that the Cabinet Secretary accepts would be necessary to meet the increasing costs of social security. Difficult decisions on priorities lie ahead and we therefore agree with Cabinet Secretary that the Scottish Government will need to "take intelligent decisions about the nature of social security in order to meet demand". We seek further details as to exactly how the Scottish

Government plans to use the resource spending review to manage the shortfall across other budget lines.” (Report published 21 January 2022)

Dame Susan Rice (Scottish Fiscal Commission) told our Committee on 23 December 2021 that:

“We highlight in our report how a significant funding gap is expected to open up between the forecast spending on social security and the devolved funding received from the UK Government. That gap reaches three quarters of a billion pounds by 2024-25. The money must be found from elsewhere in the Scottish budget. That is in the context of a resource budget that is under pressure, which is not helped by a negative net tax position for the next five years.” (SJSS Committee Official Report 23 December 2021, col 3)

Under Theme 1, risk to the budget from social security, members may wish to discuss:

- 1. To what extent does the demand-led nature of social security represent a risk to the Scottish budget as a whole?**
- 2. How might that risk be managed?**

THEME 2: MTFS and budget scrutiny

The Finance and Public Administration Committee has asked this Committee for its views on the [MTFS](#), including on how it can assist Committees with year-round budget scrutiny. In recommending the publication of an MTFS [the Budget Process Review Group report](#) stated in 2017 that:

“The introduction of an annual medium-term financial strategy and fiscal framework outturn report will be important documents in supporting the work of Committees in evaluating and influencing the budget” (p.51)

The background section above summarises the coverage of social security in the most recent MTFS. The MTFS is largely setting the broader economic and financial context. In relation to social security it focuses on the difficulties of managing demand-led spending, stating:

“In particular, demand-led social security spending is a source of substantial uncertainty, where actual spending can diverge from forecasts, in response to contingencies occurring in real time. The Scottish Government’s financial management needs to be agile to respond to this volatility, using the limited budget management tools available to us.” (MTFS, para 4.1)

Neither this Committee nor its predecessor Committee has made much use of the MTFS.

Under Theme 2, MTFS and budget scrutiny, members may wish to discuss:

- 1. How can the MTFS help this Committee scrutinise the Scottish Government's medium-term financial planning?**
- 2. To what extent does the MTFS present a clear picture of the risk to the budget created by social security commitments? How could that presentation be improved?**
- 3. To what extent does the MTFS present a clear picture of the broader context affecting social security budget decisions? How could that presentation be improved?**
- 4. Should the MTFS have a focus on how the Scottish Government will fund specific policy decisions, or is its role rather to set the broader economic and fiscal context?**
- 5. Tackling child poverty is a key priority for the Scottish Government. How should this be addressed in the MTFS?**
- 6. The MTFS sets out the BGA reconciliations for social security. Given the relatively small scale of these (eg adding £22m to the 2022-23 budget), should reconciliation be a major concern when considering social security commitments?**
- 7. Now that we have a multi-year spending review what is the role of the MTFS?**

THEME 3: Spending review and social security

When the Committee considered forecast spend on social security as part of its budget scrutiny, it discussed the forecast 'gap' between the social security block grant adjustment and social security spending. The Cabinet Secretary, Shona Robison, suggested that the spending review would consider how social security commitments will be funded. She told the Committee that:

“we will be looking at all the cost pressures within the spending review process, where we will be able to look across the longer period to the pressures that will come into the budget, including for social security. That is where we will be able to project and make adjustments in the budget going forward. That mechanism allows us to ensure that the required funding is there. ([col 11 – 12, SJSS Committee Official Report, 13 January 2022](#)).

Kate Forbes told the Finance and Public Administration Committee on 21 December that:

“Social security is another challenge, because it is a demand-led budget, so we need to manage that. We have taken a slightly different approach in

Scotland, which is, as far as possible, to promote uptake of social security benefits, because we think that people have a right to those. We will need to manage that.”([col 50, FPA Committee Official report 21 December 2021](#))

The spending review framework sets the scene for the spending review. This includes mention of how “long standing decisions” may need to be reviewed:

“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.” (Spending Review Framework p.23).

It also describes the overall aim of the spending review:

“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”

The SFC forecast social security costs over the next five years. However they have not, as yet, taken into account whether forthcoming Scottish benefits will cost more than their DWP counterparts. This includes the replacements for Attendance Allowance, industrial injuries benefits and winter fuel payment, Carer’s Allowance. As noted above, Dame Susan Rice has written to the Committee saying that the SFC will provide indicative costings for the spending review for ‘planned future benefits’.

Under Theme 3: spending review and social security, members may wish to discuss:

- 1. Do you have any views on how challenging the fiscal context for the spending review will be? What are the implications of this for social security?**
- 2. To what extent can the spending review plan over six years, given current volatility in key drivers of spending such as inflation?**
- 3. Should the spending review include specific information on the budget choices made to fund social security policies?**
- 4. In particular do you expect to see specific discussion of how the gap between social security BGA and forecast spend will be funded?**
- 5. Would you expect the spending review to make clear what the potential is to fund additional social security commitments – eg expanding eligibility of disability benefits?**

THEME 4: Spending review and child poverty targets

Addressing child poverty is one of three high level priorities for the spending review. Under ‘funding our priorities’ the spending review framework sets out that;

“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.” (Spending Review Framework para 3.3)

The framework does not discuss in any detail how child poverty will be addressed but does ask for views on ways of considering public spending across the whole budget. These are:

- Cross government collaboration
- Public service reform
- Prevention – effective targeting of preventative programmes
- Public sector workforce – capacity and distribution of public sector workforce
- Better targeting – “whether there are opportunities to refine the targeting of some policies”
- Targeted revenue raising

The second Child Poverty Delivery Plan is due later in March, prior to the spending review which is expected in May. The Committee is due to discuss the Child Poverty Delivery Plan after Easter.

Under Theme 4, child poverty targets, members may wish to discuss:

- 1. Can you comment on how the national mission of addressing child poverty is addressed in the Spending Review Framework?**
- 2. Would it be reasonable to expect the spending review to identify the amount to be spent on addressing child poverty up to 2026-27?**
- 3. Should the spending review include modelling to show the likely impact of proposed spending on child poverty?**
- 4. Given the fiscal context set out in the MTFS and the Spending Review Framework, do you have any views on the scope for further large-scale spending commitments on child poverty?**
- 5. What further consultation should the Scottish Government undertake in relation to the spending review?**

THEME 5: Fiscal framework review

Both the MTFs and the Spending Review Framework discuss the importance of the fiscal framework review. The review will be preceded by an independent report looking at the Block Grant Adjustment.

In October 2020, the then FPA Committee, the Social Security Committee and Scottish Government provided a joint report to the Chief Secretary of the Treasury setting out a combined view on the scope and terms of reference for the independent report and review of the fiscal framework. See: [Letter to Stephen Barclay MP, dated 28 October 2020](#).

On 8 March, Kate Forbes wrote to the Committee providing an update on progress. Following a meeting with the Chief Secretary to the Treasury on 3 February, she could report that:

- The arrangements are close to being finalised for the independent report on the Block Grant Adjustment. This report will inform the review.
- Her view was that the review: “should look not only at the operation of the framework to date, but also the balance of risks and levers, and whether further powers are required to better manage key risks, achieve policy coherence and grow our economy.”

Last week the Committee heard from Chloe Smith, MP the UK minister with responsibility for social security devolution. She was asked whether potential policy divergence in social security would be considered in that review. While making clear that this work is being led by the Treasury, her view was that:

“at a general level the principles around social security are of course already addressed in the current framework, [...] policy divergences haven’t actually materialised significantly at this stage in terms of social security. I think it would be difficult and hypothetical to argue what might need to change in the existing framework. So the really practical answer is that it is too early to tell. I think my expectation would be that this would not be a core part of the fiscal framework review being done at present.” [SJSS Committee video 10 March 10.15am](#).

Under Theme 5, fiscal framework review, members may wish to discuss:

- 1. Would you like to comment on the emphasis given to the fiscal framework review in both the MTFs and Spending Review Framework?**
- 2. It’s likely that tax will dominate discussion of the fiscal framework. To what extent does social security need to be considered in the review?**

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10 March 2022