

Enabling change: Multi-year budgeting in Scotland

The **Action** Project

August 2021



Background to the Action Project

The David Hume Institute's Action Project brought people together from across Scotland to consider the actions required to move faster towards a more prosperous, sustainable, inclusive and fair country.

Through facilitated conversations with over 5,000 people from across Scotland, we identified actions which will help Scotland move forward faster. The following proposal is an enabling action. It may seem like a technical change but will enable longer term planning and a more open conversation about spending plans.

The proposal was developed with support of the Action Project Steering Group, with special thanks to Eleanor Ryan and Stephen Boyle with additional support from Professor David Bell and Dr Katherine Trebeck.

The Action

The 2023-24 Scottish Budget should give indicative multi-year resource spending plans. The Scottish Government and Scottish Parliament should put an agreement about subsequent multi-year spending plans in place in time for the 2024-25 Budget.

The Issue

There have been repeated calls over many years to publish multi-year spending plans to help public services and bodies in receipt of public funding to plan effectively. It has proved difficult for Scottish Government to achieve this.

The main challenge is with resource (or revenue) spending. The cycle of multi-year planning periods for capital investment has largely been in place and in February 2021 the National Infrastructure Investment Plan 2021-22 to 2025-26 was published.

The last Scottish Government Budget covering more than one year of resource spending was the 2014-15 Budget (technically Draft Budget) published in September 2013. The Scottish Government has accepted the importance of multi-year budgets and was working on a multi-year Spending Review in summer 2019. However, the additional challenges of Covid-19 and continued uncertainties in the overall funding available in Scotland, have made multi-year budgeting extremely difficult and Scottish Government has continued to publish single-year budgets.

The Causes

Scottish Government is choosing single-year budgets driven by a mixture of practical and political

considerations. On the practical side, implementing the substantial changes to the Scottish Budget that have come with the devolution of some areas of tax and social security, and the associated introduction of the Fiscal Framework has been a massive task.

Through such a period of upheaval, it has been difficult at times to have confidence in figures for even one year at a time. We have seen the challenges that there have been on early forecasting of tax revenues with no real outturn data to use as a basis. Political room for manoeuvre has also been very important.

The intention through the Fiscal Framework was that devolved and assigned tax revenues together would fund more than half of the Scottish Resource Budget by now, with consequent stresses on forecasting, Scotland Reserve and borrowing arrangements, particularly in the early years. In reality, the assignment of VAT revenue has been delayed and there has been additional Block Grant funding to deal with the Covid-19 pandemic so the position is substantially different – but Scottish Income Tax, Non Domestic Rates and the two fully devolved national taxes are forecast to bring in around £15.5 billion against total fiscal resource spending of around £39 billion in 2021-22, or around 40%.

In 2013, more than 90% of resource spending was funded from the Block Grant, so the change in just a few years has been dramatic. The devolved funding arrangements and Fiscal Framework mean that the funding available in Scotland will continue to be driven very significantly by decisions taken at UK level. With the Fiscal Framework Review report due by the end of 2021, both the Scottish and UK Governments will be taking stock of the current arrangements and could take the opportunity to consider what future arrangements would best support multi-year spending plans.

Politically, as public spending has been squeezed across the UK, Scottish Ministers have chosen single-year resource spending plans and tactical use of additional Barnett consequentials, windfall receipts and permitted carry forward of underspending against planned budgets into the next financial year as a way of coping with a particularly challenging outlook.

At most points in the last few years, resource budget plans looking two or three years ahead would have appeared even more difficult than the reality has turned out to be in each year. Single-year spending plans have been a pragmatic response to the uncertainty, but have made longer-term planning in public services very difficult.

Many leaders of public services have argued that they would prefer to have planning assumptions to work with, even if the figures look extremely challenging, so that efficiencies in service delivery can be planned properly over multiple years. Single-year spending plans also undermine transparency, especially as future plans attract more scrutiny than in-year changes. Audit Scotland have commented on this lack of transparency several times.

The Proposal

If we accept that a more open discussion about funding for public services and longer-term planning for their delivery is important to the people of Scotland then the Scottish Government and Scottish Parliament need to work together to agree a solution.

It would be possible for them to negotiate a change that would require multi-year indicative spending allocations to be published at each Scottish Budget. The requirement might be that before the Budget Bill for a given financial year is introduced, Scottish Government must provide the Scottish Parliament with its current best estimates of budget allocated to each level 3 budget line in each of the two subsequent financial years, along with an explanation of how it has estimated the total funding likely to be available in those years.

Estimates of total funding would be heavily influenced by Scottish Fiscal Commission forecasts and the latest published UK Government spending plans, but the Scottish Government should be free to develop its methodology to include other factors, including its experience of in-year changes in previous years.

A change could be made either by amending the Public Finance and Accountability Act 2000 or through a formal agreement between the Scottish Government and the Parliament. The latter could be achieved more quickly and could be an interim step towards an eventual change in the legislation.

The 2023-24 Budget should give indicative multi-year resource spending plans. The Scottish Government and Scottish Parliament should put an agreement about subsequent multi-year spending plans in place in time for the 2024-25 Budget.

How strong is the evidence for this change?

Public and third sector bodies running services, including the NHS, want certainty about funding for more than one year at a time to allow them to plan. This approach would not give them certainty but would at least indicate trajectories that should help bodies take a longer view and be better able to plan investment on longer term projects. This issue has emerged from many sources over recent years and comes through in the wider findings from the Action Project.

How easy is it to make progress?

It is a relatively straightforward change to propose, but we do not underestimate the challenge in implementing it. Estimating the level of funding likely to be available to Scotland in future years will not be straightforward. It is important that there is recognition, particularly from the Scottish Parliament, that future-year funding estimates will change as more information becomes available and that this will have a knock-on effect on indicative spending plans.

Leaders of public services and organisations which receive significant public funding will have to accept that indicative plans can only ever be indicative and work with Scottish Government to manage the risks.

We would like to see the Scottish Parliament, Scottish Government and Audit Scotland work together to make multi-year budgeting the established norm in Scotland. This could initially be through a new agreement as outlined above but ultimately could be reflected in legislation.

What would be the impact?

Multi-year budgeting helps planning, effective investment and productivity, and can be particularly useful on longer term projects, many of which are linked to climate action.

This is a technical change that would not directly improve outcomes. The impact would depend on behaviour changes that could result from a longer view of spending plans and public service design, more informed parliamentary scrutiny and more transparency of how budget decisions evolve for academic and other commentators.

It would arguably be a useful step on the way to a credit-worthy Scotland as transparency is one of the factors that would be taken into account in the credit rating determined if Scottish Government were eventually to issue its own bonds. It would also be a useful step in devolving budgets to local levels as the people in charge of those would face the same challenges of planning.

As long as public expenditure remains very tight, which is likely to be the case for several years to come, it won't solve the core problem for publicly-funded services where pay increases and inflation is increasing costs well above any increase in budget.