

Finance and Public Administration Committee

Medium Term Financial Strategy Review

Submission from the Social Justice and Social Security Committee

Dear Kenneth,

Scottish Government's Medium-Term Financial Strategy

Thank you for the Finance and Public Administration (FPA) Committee's correspondence of 16 December, which advised your Committee is undertaking a short, focussed review of the content of the Scottish Government's [Medium-Term Financial Strategy](#) (MTFS) to establish whether it meets the ambitions of the Budget Process Review Group (BPRG) and if any improvements can be made.

The FPA Committee sought views from parliamentary committees on:

- whether the MTFS meets the intended objectives of the BPRG, i.e. if it sets out the Scottish Government's expectations and broad financial plans and projections for at least five years ahead on a rolling basis,
- the extent to which the MTFS now contains all four elements envisaged by the BPRG,
- 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,
- how adequately the MTFS sets out the future objectives for approaches in cross-cutting areas such as climate change, the economy and equalities, and
- where improvements could be made to the content to better support parliamentary scrutiny.

As part of its scrutiny of the budget, the Committee had already agreed to hold a session in March to look at the MTFS and the spending review framework in more detail and to write to the Scottish Government with its views.

This letter therefore sets out the Committee's preliminary views based on scrutiny work already undertaken and focuses on the management of financial risks.

Managing financial risks

On [23 December 2021](#), the Committee took evidence from the Scottish Fiscal Commission (SFC) on its revised fiscal forecast following publication of the Scottish budget on 9 December. Prior to this the Committee had held a session with the (SFC) on [7 October 2021](#) on its August forecast for social security spending. These sessions provided an opportunity to gather evidence on the fiscal context, overall trends in social security spending, the impact of new Scottish benefits and Scottish Government spending above UK funding. Dame Susan Rice, SFC, advised the Committee on 23 December that:

“In our new forecast, we expect spending on devolved social security to rise from £3.7 billion this year to £4.1 billion in 2022-23, and to reach £5.5 billion in 2026-27, once the full costs of the adult disability payment and the Scottish child payment are included. That is nearly £1 billion more than in our budget forecast in January this year, and is mainly accounted for by the introduction of the adult disability payment, the doubling of the Scottish child payment and the higher inflation forecast.” (Cols 2-3)

The SFC expect a funding gap of at least £760m by 2026-27. In a letter to the Committee they say:

“Combining completely new payments and payments with BGA [Block Grant Adjustment] funding, we expect that by 2026-27 spending on the Scottish Government’s social security benefits will be £760 million more than the corresponding funding received, reducing the funding available for other parts of the Scottish Budget.”

The MTFs does recognise at Chapter 4.21 the spending risks:

On the spending side, under or overspending on budgets is a risk that requires constant management. 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.

Although the MTFs lists the broad fiscal risks and the general mitigation approach, it does not set out any further detail on the risks and provide specific actions it will take to mitigate the risk. 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.

Yours sincerely

Neil Gray MSP
Convener
Social Justice and Social Security Committee