

MEETING: 11 AUGUST 2022

**REPORT BY: EXECUTIVE DIRECTOR OF PERFORMANCE AUDIT AND BEST VALUE
AND INTERIM CONTROLLER OF AUDIT**

**THE RESOURCE SPENDING REVIEW AND MEDIUM-TERM FINANCIAL STRATEGY -
ACCOUNTS COMMISSION BRIEFING**

Purpose

1. The purpose of this report and attached briefing is to update the Commission on the contents and implications of the [Resource Spending Review](#) (RSR) and the latest [Medium Term Financial Strategy](#) (MTFS), highlighting some of the key implications for local government finances.

Background

2. The RSR and the latest MTFS were published in May 2022. These set out the fiscal and budgetary challenge that the Scottish Government face, and its proposed response over the next five years. This is the first resource spending review since 2011.
3. The review and medium-term plans are in the context of significant challenges for Scotland's economy. Near term forecasts for the economy have changed substantively in the short period since even the December 2021 budget. Inflation has risen more sharply than expected, driven by the conflict in Ukraine, rising energy costs and supply chain bottlenecks in China.
4. Low-income families are expected to be more greatly affected by this due to the greater proportion of their income that is spent on food and fuel. The Scottish Funding Council (SFC) forecasts of Gross domestic product (GDP) growth are slightly lower than those in the December forecast and states that the risk recession in Scotland and the UK is now materially higher than previous forecasts.
5. Overall, the Scottish Budget will increase in cash terms over the medium term, but significant uncertainties lie ahead for the block grant and devolved areas of taxes and social security.

Local government issues

6. Local Government sees a substantial drop in its funding. Local Government's "core" resource budget is projected to be cut by 7% in real terms over the period. As only level two information is available however, we cannot see any of the transfers to local government from other portfolios that are an increasing part of the local government budget in recent years. However, the RSR confirms that existing transfers for Health and Social Care, Early Learning and Childcare and additional teachers worth £1 billion will also be maintained.
7. The RSR also makes no assumptions about council tax, stating that decisions about fiscal autonomy are part of ongoing discussions to establish a fiscal framework with local government. The Scottish Government states it will work closely with the Convention of Scottish Local Authorities (COSLA) and the Society of Local Authority Chief Executives (SOLACE) over the coming months to agree a new deal for Local Government in

Scotland in advance of the next financial year. This would include the scope for revenue raising in local government.

8. Another factor for the medium-term picture for local government and the Scottish Government is the implementation of the National Care Service. The RSR states that there will be “significant changes to functions currently delivered in full or in part by local authorities.” The details of this are not included in the RSR, but SPICe note that Scottish local authorities spent £3,528 million on social work and social care in 2020-21, 32% of total local government net revenue expenditure.

Other background material

9. Alongside the key documents themselves, this briefing is also informed by:
 - SPICe briefing on the [Resource Spending Review and pre-budget scrutiny](#);
 - The Scottish Fiscal Commission’s [economic and fiscal forecasts](#) which inform the MTFS and RSR;
 - Blogs from the Fraser of Allander Institute on the [economy](#) and the [Scottish budget](#).

Conclusion

10. The Commission is invited to note this report and attached briefing.

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