

Medium Term Financial Strategy: where's the medium-term focus or strategy?

Last week, the Scottish Government published its 2nd Medium Term Financial Strategy (MTFS).

The purpose of the MTFS, as set out by the Parliament's [Budget Process Review Group](#), was to 'provide a means of focussing on the longer term sustainability of Scotland's public finances'.

This is clearly a positive and the government should be commended for publishing the MTFS.

However, those that had been hoping that this year's MTFS would build upon last year's publication and provide a robust overview of the government's fiscal strategy will be disappointed.

To fair, there are a lot of new helpful elements of information like the policies and principles on borrowing and reserves and the new detail on infrastructure investment funding.

But to be fully effective, whatever administration is in office, future MTFSs will need much more detail on future plans as well as appropriate assessments of risks & opportunities.

The purpose of the MTFS was to inform scrutiny of the Scottish Budget. Not only was it to set out the longer term trajectory of the aggregate numbers, but it was also to inform debates over the challenges and opportunities that policymakers will face - across electoral cycles - when making tax and spending choices.

Of course, this is all the more important in the context of the new and complex way in which the Scottish Budget is now determined.

Economic risks

Much of the focus was spent setting out an argument that strongly criticises UK fiscal policy over the last decade. This is of course important context for the MTFS and many will disagree with the UK Government's approach. But why so much time was spent on looking back over a decade - as oppose to the outlook for Scotland - was surprising.

Some may also contrast the upbeat tone - Brexit aside - of the 'economic context' section with last week's [more sobering assessment of the Scottish Fiscal Commission](#).

The MTFS reports a number of economic statistics which it argues shows that "2018 was a

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positive year for the Scottish economy". This is true. But a forward looking financial assessment would usually reflect the full suite of economic statistics available, some of which show growth below trend, real earnings lower than a decade ago, productivity lagging key competitors and rising in-work poverty.

But aside from your own view of the current state of the economy, what is striking was the lack of analytical assessment about the economic outlook – the key risks and opportunities we know that are coming from demographic change, automation and climate change – and how this might impact upon the public finances.

Brexit is mentioned. And it is indeed a major risk. But it's a risk too for the UK. And if it is a risk, what's the government's strategy for managing Brexit-related (and non-Brexit related) economic risks impacting upon the public finances?

With this in mind, what was also noticeable was the lack of assessment as to what – in the government's view – explains recent differences in tax performance between Scotland and rUK. And crucially, [SFC's £1bn worth of income tax reconciliations](#) between 2017-18 and 2019-20.

You might also think that a medium term financial strategy document might detail how it will manage such a hit to revenues. But it doesn't.

Spending priorities

Limited information is also forthcoming on spending.

Last year, the government set out some high level information about core spending commitments.

This year's MTFs says nothing whatsoever: what areas will be prioritised, what the strategy is for non-priority areas, and how spending objectives will be prioritised under different risk scenario?

The MTFs does have a central scenario of annual real terms resource growth of 1.1%. But there is no indication of whether this is sufficient to meet existing commitments, or if plans might change. It also doesn't assess the risk that the budget might grow faster or slower, and how spending plans might evolve in these scenarios, nor whether tax policies might alter this trajectory.

Instead we are left with a set of principles for the Spending Review later in the year.

Even here, there's a lack of clarity.

On the one hand it states:

"Irrespective of the UK Government's decision about its Spending Review, the Scottish Government therefore plans to undertake reviews of spending beyond 2020-21 in order to ensure we can continue to meet the high standards and deliver the quality public services that people across the country expect."

On the other it also says:

'On resource [spending], we currently plan to publish indicative budgets in December 2019 alongside the Scottish Budget 2020/21, but that may not be possible if we do not have sufficient clarity from the UK Government on its spending plans at that stage'.

Devolved fiscal risks

Finally, there is little discussion of future fiscal risks.

For example, in 2020/21, the full fiscal risk associated with £3.5bn of social security spend will transfer to the Scottish budget.

What is the government's assessment of such risks and how will it manage them?

Of course, much of the blame for the overall lack of fiscal clarity rests with the UK Government, but it would be wrong to conclude that the Scottish Government couldn't do more to set out the scale of these risks, how it intends to manage them and its priorities.

Yes the environment is uncertain. But the whole point of scenario analysis is that it lets you explore the implication of different outcomes. In an uncertain world the case for such analysis is surely stronger.

This document does little to add clarity with regard to the medium term financial risks and opportunities facing the Scottish budget.

We wouldn't be surprised if Holyrood seeks additional information to enable it to discharge its oversight function effectively.