



Review of the Scottish Government's Budget and Spending Review

Paper supporting evidence to the Finance Committee

4th December 2007

1. Introduction

a. The Sustainable Development Commission

The Sustainable Development Commission Scotland (SDC) is the Scottish Government's independent advisor on sustainable development.

The Commission publish an annual review of progress against the Government's Sustainable Development Strategy *Choosing Our Future* and reports to the First Minister of Scotland on key policy areas including energy, the economy, climate change, governance and food. We help government, local authorities and businesses put sustainable development at the heart of what they do.

At a UK level the Sustainable Development Commission has 19 Commissioners and a secretariat of 50 staff. There are two Scottish-based Commissioners, Professor Jan Bebbington and Hugh Raven, supported by a secretariat led by Scottish Director Maf Smith. Commissioners and secretariat work with Scottish Government departments and agencies to promote sustainable development. We also work with a range of other organisations, such as the Scottish Sustainable Development Forum and the Sustainable Scotland Network.

b. Defining Sustainable Development

The Commission supports the Scottish and UK Governments' definition of sustainable development as being based on 5 principles (overleaf). Two of these five principles represent the desired outcomes of policy action, namely that we should:

- Live within environmental limits
- Ensure a strong, health and just society

Three of the principles are mechanisms to help achieve these two ends, namely

- Achieve a sustainable economy
- Use sound science responsibly
- Good governance

In relation to the work of the Finance Committee it is worth noting that ***achieving a sustainable economy*** is not viewed as a desired outcome or purpose in itself, rather it is a mechanism to deliver environmental sustainability and a healthy society.

We would therefore suggest that the central Purpose of Government would more appropriately be *Achieving Sustainable Development* rather than *Sustainable Economic Growth*, although we accept that what is more important is how Sustainable Economic Growth is defined in terms of Objectives and Outcomes

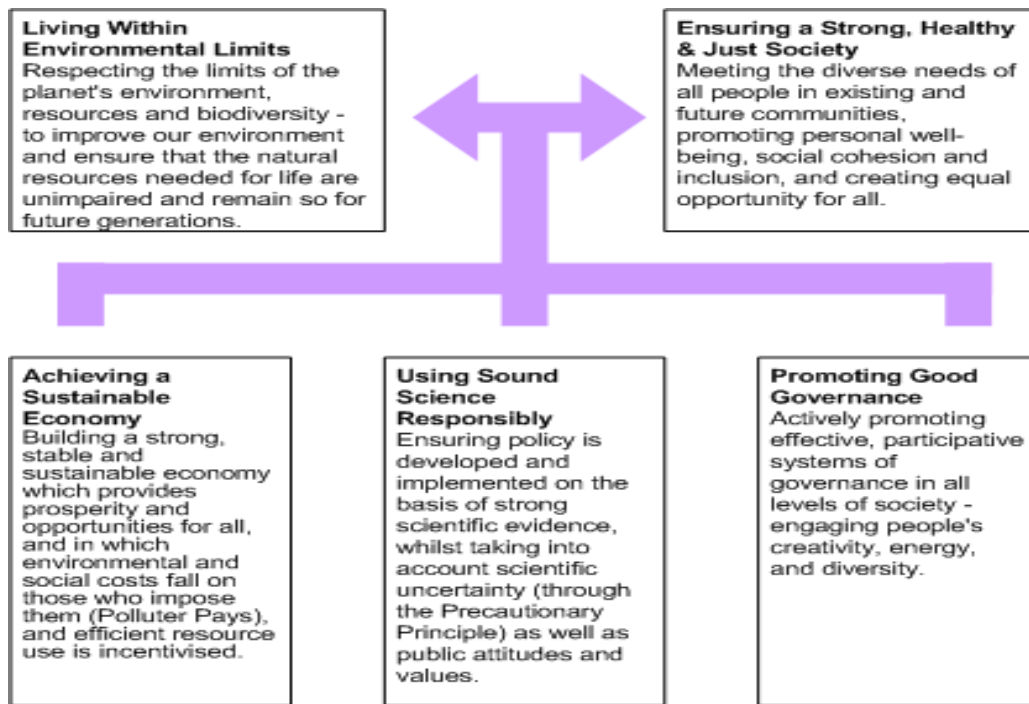


Figure 1: Scottish and UK Government's shared framework: principles for sustainable development
(Source: *Choosing Our Future: Scotland's Sustainable Development Strategy*, December 2005)

2. The Government's Purpose of 'Sustainable Economic Growth'

The Government has a central purpose which is to increase sustainable economic growth. This purpose is underpinned by Strategic Targets and Indicators, Strategic Objectives and a wider set of Priorities.

As noted in the previous section, the Commission's view is that the central purpose of Government should not be the health of the economy *per se*, vital though that is, but rather the purpose should be the creation of a socially and environmentally sustainable society.

Economic growth can contribute to a more sustainable society but only if the growth is directed into areas of the economy that are environmentally and socially beneficial and is based on every increasing efficiency in resource use.

In this context it is worth reflecting on the commitment of the Scottish Government to cut Greenhouse Gas (GHG) emissions by 80% by 2050. Cuts of this magnitude are essential if we are to contribute to global reductions that limit the risk of dangerous climate change. Such reductions will however require a radical transformation of our economy and society.

It is true that over the last 20 years we have seen some 'decoupling' of growth and GHG emissions. However, much of this has been achieved through the exporting of Scotland's carbon intensive, heavy industrial base. Future emission cuts will have to be the result of efficiency across the economy. Achieve sustainable economic growth cannot be seen as a business as usual scenario.

The commitment of the Government to increase our levels of growth and economic activity will mean that every new unit of production and every new infrastructure project will need to be delivered within a framework where total emissions are not just stabilised but being cut significantly. This presents a major challenge for current and future governments and higher growth could make this challenge greater still.

3. Analysis of the Draft Budget Spending Review 2008/9

a. Introduction

The Scottish Budget Spending Review 2007, published on November 14th, outlines the Government’s expenditure plans for the next three financial years under each of 5 themes: Wealthier and Fairer, Healthier, Smarter, Safer and Stronger and Greener. It sets out a new National Performance Framework and commitments to more efficient government with a target of 2% annual savings to be reinvested in services.

The Spending Review also includes a range of Purpose Targets, Strategic Objectives, National Outcomes and National Indicators and Targets which all underpin the strategic economic approach of government (Figure 2).

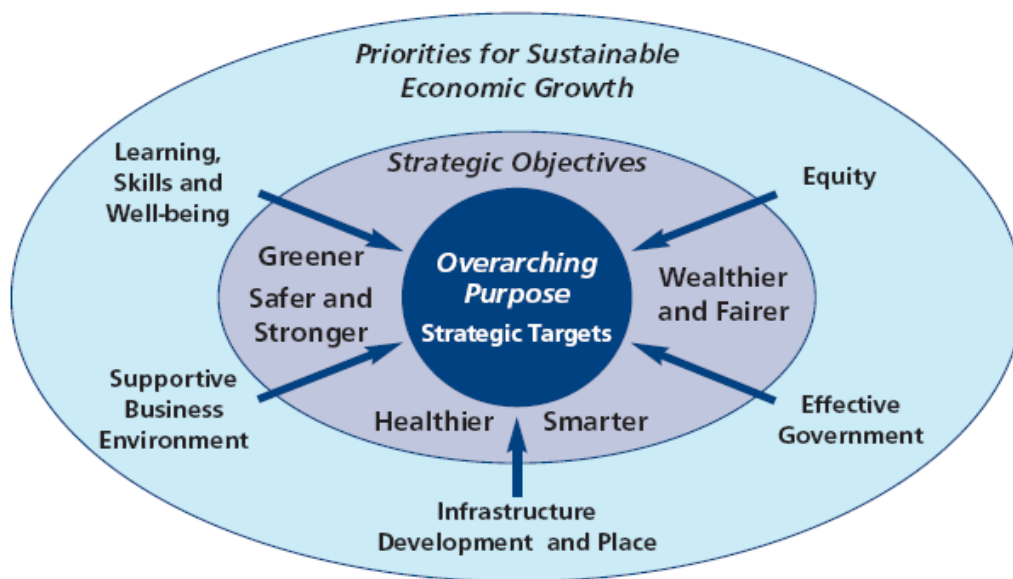


Figure Two: The Strategic Approach of the Scottish Government
(Source: *The Government Economic Strategy*, The Scottish Government, 2007)

b. The Purpose

As noted in the previous section, the Commission’s view is that the purpose of Government should be Delivering Sustainable Development defined as *the creation of a strong and health society that lives within environmental limits*.

Despite this, the inclusion of *sustainable* is a step forward on previous economic priorities. The extent to which the Budget and Spending review contributes to sustainability is dependent on how sustainable economic growth is defined in terms of objectives, priorities and outcomes, how it is measured, and how it translates into spending and action on the ground.

One problem that arises when seeking to evaluate the intentions of the Scottish Government in this area is that the term ‘sustainable’ is used in many contexts. At times it is sustainable as implied by sustainable development. At other times, it is sustainable as in being able to be sustained into the future. This confusion is unfortunate and detracts from the presumption that the Government intends sustainable to be shorthand for action in accordance with the principles of sustainable development.

c. Purpose Targets

The Spending Review sets out 9 Purpose targets to guide delivery. These are:

Economic Growth (GDP)	<ul style="list-style-type: none"> • To raise the GDP growth rate to the UK level by 2011 • To match the growth rate of small independent EU countries by 2017
Productivity	<ul style="list-style-type: none"> • To rank in the top quartile for productivity amongst our key trading partners in the OECD by 2017
Participation	<ul style="list-style-type: none"> • To maintain our position on labour market participation as the top performing country in the UK and to close the gap with the top 5 OECD economies by 2017
Population	<ul style="list-style-type: none"> • To match average European (EU15) population growth over the period from 2007 to 2017, supported by increased healthy life expectancy in Scotland over this period
Solidarity	<ul style="list-style-type: none"> • Increase overall income and the proportion of income earned by the three lowest income deciles as a group by 2017
Cohesion	<ul style="list-style-type: none"> • Narrow the gap in participation between Scotland’s best and worst performing regions by 2017
Sustainability	<ul style="list-style-type: none"> • Reduce emissions over the period to 2011 • Reduce emissions by 80% by 2050

While it is accepted that GDP is an internationally recognised and widely used indicator of economic performance, the **Commission views GDP as an unsatisfactory measure of economic development as it fails to distinguish between expenditure that help contribute to a more sustainable society (e.g. spending on improvements to the housing stock) and expenditure that is the result of unsustainable outcomes (e.g. car accidents). As a result, the focus on GDP may not provide an indication of whether or not sustainable economic growth has been attained.**

The targets on Solidarity and Cohesion are welcome as is the long term commitment to cut emissions by 80% as they help to illustrate whether overall economic development is contributing to social and environmental improvements. To some extent these help to

counterbalance the use of GDP, although it is suggested that some overall indicator of the sustainability of economic growth might be a useful addition to the set. Ecological Footprint is included only as a more junior indicator within the set.

It is also the Commission's view that a firmer target for GHG reductions by 2011 is required, one that sets out an actual emission reduction target in line with the 3% annual target likely to be in place by that time.

In addition, there may be significant tensions and conflicts that arise from pursuing these 9 targets simultaneously. This complexity and these tensions must be addressed in the implementation of Government policy.

d. Strategic Objectives

The Government's 5 Strategic Objectives are broadly in line with the principles of sustainable development. The attempt within the spending review to integrate action across the 5 Strategic Objectives is also welcome. For example, it is recognised that making Scotland Healthier requires not just expenditure on health services but action on economic opportunities, diet and lifestyle and environmental enhancement. **There are areas of Government action however where the approach can still not be viewed as sustainable and an example of this is provided later in this paper.**

e. National Outcomes

The SDCS supports the focus of the Spending Review on Outcomes rather than Outputs. The 15 Outcomes contained within the Spending Review are consistent with an integrated approach to economic, social and environmental issues. **The likelihood that these outcomes will be achieved is however dependent on the combined impact of the various actions and spending decisions of Government.**

f. National indicators and Targets

The 45 National Indicators that underpin the Budget and Spending Review are broad in scope and address many sustainable development issues.

However the view of the Commission is that not all the targets are SMART targets i.e. likely to record fundamental sustainability impacts. For example:

- The target that *50% of electricity generated in Scotland to come from renewable sources by 2020 (interim target of 31% by 2011)* is ambitious as a measure of renewable electricity and is as such welcome. However it does not enable an understanding of whether our *overall* consumption of energy or electricity will fall during that period
- The target to *increase the proportion of journeys to work made by public or active transport* does inform us whether we are using more sustainable transport for a greater proportion of our journeys but does not tell us that the *overall* usage of private cars for journeys is in decline

- The target to *reduce the proportion of driver journeys delayed due to traffic congestion* does not inform us as to whether this has been achieved through enhancement of public transport alternatives or by increased road building
- The target to *reduce to 1.32 million tonnes of waste sent to landfill by 2010* does not illustrate whether total waste arisings have been reduced, or whether the waste has been diverted from landfill to the most sustainable alternative option

We would therefore recommend that the Government consider revision of some of the indicators and targets to ensure that they are aligned to the desired sustainable outcomes and reflect total (for example) environmental impact rather than relative performance.

It is also not clear how the indicator set will integrate with the Government's current set of sustainable development indicators and the Commission believes that this is an area where clarity should be sought from the Government.

4. Analysis of the detail of the Spending Review

a. Strengths of Spending Review

As noted earlier the Spending Review does in many instances provide an integrated and balanced assessment of the issues that underpin each of the 5 Strategic Objectives and supports this with a set of actions and spending commitments that are designed to address the objective in a joined up way. For example in ***Chapter 5: A Healthier Scotland*** actions are set out that are intended to tackle poverty and deprivation, increase participation in sport, improve mental health and housing. In general terms this is in line with what the Commission would view as an approach to this issue based on the principles of sustainable development.

There are other positive aspects to the Spending Review, including the recognition of the opportunity Scotland has to be a global leader in addressing climate change and moving to a low carbon economy. This vision is supported by direct commitments to funding for investment in climate change mitigation and in prizes designed to promote innovation in this sector as well as a commitment to better consider the adaptation response to climate change. **These steps are likely to be a necessary but not sufficient condition for reducing greenhouse gases and we would welcome the Government making more explicit the carbon contributions of various actions.**

Elsewhere there is a need for greater clarity as to how the sustainability impacts of spending decisions and associated policy frameworks are taken into account. **Positive statements are made including that the Government wishes to promote 'increasingly high standards of environmental performance and design' or move towards 'a zero waste society' or to reduce 'unsustainable consumption and production' but these are not backed up with concrete and specific commitments to additional actions.**

Actions in the Spending Review where the Government will need to provide greater clarity as to how actions will promote sustainable economic development include:

- **The commitment to invest £2.5Bn in Scottish Water**
- **The use of planning as a tool to deliver a strong economy** – there is a need to ensure that the upcoming National Planning Framework is fully aligned with sustainable development principles
- **The commitment to a National Procurement Centre of Expertise** that will deliver a national sustainable procurement plan. While very welcome, detail of how this will be achieved is required
- **The pledge to consult on a new housing strategy that includes higher environmental standards for all new homes and to set a clear route to zero carbon homes** is again very welcome but it is not clear how quickly this will be taken forward. More importantly only limited action on improving the energy performance of the existing building stock is set out in the Spending Review. This is an area where significant action is required should the greenhouse gas emissions targets have any chance of being met
- **Commitments to developing Single Outcome Agreements and for an enhanced role for Local Authorities and Community Planning Partnerships** is welcome but it must be ensured that outcome agreements are based on a balanced assessment of sustainable development priorities, as is joint national-local action on climate change and waste
- **Support for free nutritious school meals is to be applauded** but it is also important to consider the issues around ‘food miles’ and the wider impacts of food procurement
- **There is a commitment to Green Tourism** but no explanation about how that squares with the parallel commitment to a 50% increase in tourism by value by 2015 nor how these two aspirations can be met while reducing greenhouse gas emissions.

For all these areas there is a need to ensure that sustainable development principles are placed at the heart of policy and spending commitments. While recognising that the Spending Review may not be the best document in which the detail of policy and spending commitment should be placed, a commitment to developing appropriate tools and policy decision support mechanisms would have allayed some of our concerns in this context.

b. Analysis of Portfolio Spending Plans

As noted above the view of the Commission is that the spending and policy commitments set out in some of the Ministerial Portfolios do offer a balanced and largely sustainable approach in terms of direct and attributable spending.

However, there is a lack of consistency across all areas of government. For example, an analysis of the Finance and Sustainable Growth shows a more mixed picture with some good commitments and statements of principle but with this being offset by unsustainable commitments elsewhere. The actions within the Spending Review which

are likely to have clear positive or negative impacts on sustainable development are set out below.

Actions likely to contribute towards a more sustainable economy	Actions likely to contribute to a less sustainable economy
<ul style="list-style-type: none"> • Support for investment by British Waterways Scotland in the canal network as a driver of economic regeneration • Continued provision of free travel to over 1 million people on the bus network • Ending of the Route Development Fund • Supporting of lower bus fares throughout Scotland • Supporting high quality ferry services • Support for the Climate Change Bill, the EU Emissions Trading Scheme and The Carbon Reduction Commitment • Increased expenditure on climate change and energy and support for the Saltire prize • Support for the third sector through a development programme 	<ul style="list-style-type: none"> • Above inflation increases in expenditure on motorways and trunk road from £933m to £1,181m over three years - this contrasts with reducing expenditure on rail • Removal of tolls on Forth and Tay bridges which modeling suggests will increase congestion • Despite positive actions on bus fares, overall real term decline in expenditure on bus services

In a wider sense, as noted in section 4a, it is the implementation of policy commitments that will affect the extent to which they contribute to sustainable development or move us along a less sustainable path. Within the Finance and Sustainable Growth these will include:

- The guidance given to the restructured Scottish Enterprise and Highlands and Islands Enterprise and the way in which this is implemented
- The means by which Visit Scotland seeks to promote tourism in Scotland
- The framework for public sector procurement set out by the planned National Procurement Centre of Expertise
- The new National Planning Framework for Scotland
- The collaborative working undertaken with Local Government

5. Conclusions

In conclusion, the Commission welcomes the opportunity to comment on the Scottish Budget Spending Review 2007.

Our view is that sustainable development has been integrated in some aspects of the Spending Review. Government, however, faces a major challenge in achieving the desired level of growth while at the same time achieving significant year on year cuts in GHG emissions that it has signaled it will commit to under the Climate Change Bill.

This task is made harder still by the fact that for certain areas of Government spending such as transport, large amounts of expenditure are still being directed into unsustainable forms of development. Likewise, areas that need support to contribute to sustainable development goals (such as retrofitting of housing stock to reduce greenhouse gas emissions as well as enhance the lives of the poorest in society) do not appear to have been addressed satisfactorily.

Finally as we have noted above, much of the impact of Government will be through its agencies, such as Scottish Enterprise, and through the guidance it provides to the public sector through procurement. At present, we are not convinced that sufficient thought has been given to developing systems of governance that will allow sustainable development to be woven into all such areas of government.