

Scotland

The state of the state

Scotland's maturity as a devolved administration has been rapid. Since devolution twenty years ago, the Scottish Parliament has become embedded in national life, a dynamic political landscape has been established and the Scottish Government has exercised its independence by charting its own, distinctive course.

The independence referendum three years ago may have kept Scotland within the union but it accelerated further devolution of borrowing, tax and welfare powers which look set to see it diverge even further from the rest of the UK in its approach to public spending and public sector reform – and that divergence could extend even further as a result of last year's EU referendum.

In this year's *State of the State* interviews, public sector leaders in Scotland told us that they face the same challenges as the rest of the UK, although budget restraint has not been as severe. One council chief executive told us that "the Scottish public sector is about four years behind English austerity" and another said "reductions here are not on the same scale as south of the border". But some felt that this had not given Scotland's public sector the same stimulus for innovation. A local government interviewee said that "we're not seeing as much radical thinking" as in England while one of her colleagues in another authority told us that further settlements will shape the extent of reform on the sector because "the magnitude of austerity drives how far you need to change as an organisation".

However, interviewees in the NHS were particularly concerned about their financial outlook as demand continues to grow faster than budgets. One chief executive warned that his organisation's financial survival increasingly depends on non-recurring sources of funding, and as such, were not sustainable. He went on to tell us that demand for local NHS services is growing by the equivalent of a new GP practice needed every year – a pace which he described as "remorseless".

Police Scotland, the country's single force since the 2013 merger of eight forces, has been bold in addressing its financial position. In a bid to meet challenging expectations on savings, this year the force put forward a budget with a £47 million deficit along with a new approach to financial management. Police Scotland appears better-placed to realise the benefits of a single force, with the release of a ten-year strategy that recognises the changing shape of demand, the opportunities of technology and the need to work with partners including communities themselves.

In local government, our interviewees were focused on the same inequality issues as their peers in England.

Talent issues specific to Scotland were raised by some of our interviewees. One director of a non-departmental body reflected that the Scottish Government and its agencies would need new capabilities to make full use of new tax and welfare powers. They told us that recruitment is generally more difficult in rural areas, but several interviewees added that political and reputational risks put talented candidates off. A senior NHS figure told us that NHS chief executives were hard to recruit because "it's the chief executive that gets sacked" and another public sector leader described how "destructive and personal" comments from the media and politicians create a hostile environment for senior staff. However, a Scottish council chief executive recognised her staff are driven by a sense of mission to the area they serve.

Scotland's public sector has a unique exposure to Brexit, not least because of the political uncertainty that it creates. In the 2016 referendum, the more europhile Scottish electorate voted to remain in the

EU and in response, the governing Scottish National Party moved quickly to propose a second Scottish independence referendum. Such a vote could be put forward by the First Minister within two years, once details around the UK's Brexit deal become known.

In addition, Scotland is a significant beneficiary of EU funding. As a submission to Holyrood's finance committee set out, while the country is home to 8.5 per cent of the UK population, it expected to receive 14 per cent of EU funding coming into the UK between 2013 and 2020.³² Council chief executives that we interviewed questioned whether such funding would be replaced beyond that date.

Overall, the public officials we interviewed in Scotland were professional and sanguine about Brexit. A local government finance director told us that the council "can only approach [Brexit] from a risk perspective" and to date, no interviewees had seen any significant tangible impact – positive or negative – as the UK prepares to leave the EU. Several leaders said that Brexit, and the prospect of a second independence referendum, had added a political dimension to the economic uncertainty it has created across the UK. A council chief executive told us that it led to "a general fear about what it's going to do to the economy and the knock on effect on the public sector". Another confirmed that inward investment has not slowed, but he went on to warn that "foreign direct investors ask about stability – and that's everything from currency to government".

As the Scottish Parliament marks 20 years since the referendum that led to its inauguration, some of our interviewees reflected on its success to date as well as its future. As in other parts of the UK, the

public sector leaders we interviewed in Scotland called for longer-term thinking. One key figure urged that "Parliament is good at debates on people waiting eight

hours in A&E, but not good at debating why we've got a generation of inactive kids growing up. Too much parliamentary time is focused on short term issues and not

enough on long term issues, and those are the ones that are going to make a difference to Scotland".

We haven't felt any effect from the indy referendum issue or Brexit yet. We're getting incoming business and direct investment. But foreign direct investors ask about stability – and that's everything from currency to government.

We don't know what's going to happen with Brexit. We can only approach that from a risk perspective. But we've got an eye to Brexit.

It feels like our financial survival is increasingly dependent on non-recurring sources of funding. It's not sustainable.

Reductions here are not on the same scale as south of the border. We're not seeing as much radical thinking on prioritising or doing more with less.

Our real problem is coping with growth. We have to think through everything from housing to office supply. Everyone's got adult growth. We've got that plus more, without any more money.

We've benefitted hugely from EU funding and we need to know how that will be replaced.

What will make a difference is how bad austerity gets. You have to deal with your burning platform. The magnitude of austerity drives how far you need to change as an organisation.

Parliament is good at debates on people waiting eight hours in A&E, but not good at debating why we've got a generation of inactive kids growing up. Too much parliamentary time is focused on short term issues and not enough on long term issues, and those are the ones that are going to make a difference to Scotland.

Scotland benefits disproportionately in terms of EU funding. The government has agreed to continue funding until 2020 but after that, all bets are off. It seems unlikely Scotland will have the same share as we did before and that's difficult for public bodies to be managing. And hard to read.

Parliament itself was established in 1999, so it's heading to its 20 year anniversary and it's been through all the permutations of minority and majority government. The shine has come off and people are being more realistic about what it needs to improve. There's an appetite to actually move parliament itself on a step again, so it has the kind of conversations that it needs to have.