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Kenneth Gibson MSP
Convener
Finance and Public Administration Committee
The Scottish Parliament
Edinburgh
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23 February 2023

Dear Kenneth,

At the Finance and Public Administration Committee evidence session on the 2023-24 Scottish Budget on 7 February, I agreed to write to the Committee to clarify the following matters.

(1) Mr Johnson asked for further information on the Scottish Government's total energy bill, particularly in relation to gas. He also asked what the implications could be for the public sector with the UK Government ending its energy support arrangements in April and the continued volatility of gas prices.

The total energy bill for organisations that utilise the Scottish Government's Frameworks for the Supply of Natural Gas and Supply of Electricity was £422.1 million in 2021-22 - £110.9 million for gas and £311.2 million for electricity. This includes central government, health, local authorities, universities and colleges, third sector and other public bodies. The estimated total spend for 2022-23 is £690 million - £296 million gas and £394 million electricity.

The UK Government announced an extension to the current Energy Bill Relief Scheme, called the new Energy Bills Discount Scheme published on 9 January 2023. This relief will offer some limited protection from high energy prices to UK businesses for a further year from 1 April 2023 to 31 March 2024 but is unlikely to be extended beyond this period.

The new scheme will not have an impact on public sector organisations who use the national frameworks for the supply of gas and electricity. Wholesale prices for 2023-24 under the frameworks are likely to be lower than the thresholds under the new scheme.

The Scottish Government's Procurement and Property Directorate expect to confirm the cost of gas and electricity wholesale rates for the period 2023-24 by early March 2023.

(2) Mr Lumsden stated he had not received an answer to his question on non-domestic rates from last month and requested further details on this.

This query was originally responded to in my letter to the Committee dated 19 January which provided further information on the non-domestic rates (NDR) 2023 revaluation. This letter is included in Annex A.

As indicated in the letter, the Scottish Fiscal Commission's forecast for NDR contributable income is £2,818 million in 2022-23 and £3,075 million in 2023-24, a growth in income of £257 million, or 9.1%.

The two key factors that explain the growth in NDR income in 2023-24 compared to 2022-23 are the ongoing 2023 revaluation, and the devolution of Empty Property Relief (EPR) to local authorities on 1 April 2023. Reliefs, such as EPR in 2022-23, cause the NDR income forecast to be lower than it otherwise would be. As part of the Local Government settlement, £105 million has been allocated to local authorities in 2023-24 as a result of the devolution of this relief.

If forecast NDR income for 2032-24 is reduced by the value of the EPR allocation, the growth relative to 2022-23 would be 5.4%, which is aligned with the estimated growth in rateable value in 2023-24 as a result of the revaluation.

At the time of the budget forecast, it was estimated that total rateable value on the valuation roll (£7,281 million) would increase by an estimated 5.2% at revaluation, to £7,656 million.

Once final values are available after the publication of the valuation roll which comes into force on 1 April 2023, the Scottish Government intends to make available statistics on the impact of the revaluation across the NDR tax base.

(3) Mr Mason raised the question over whether councils can increase penalty charge notices (PCN) for parking as way of raising revenue.

Local authorities have the power to raise Penalty Charge Notices to the maximum permitted rate as laid down in Guidance by the Scottish Ministers. Scottish Ministers can issue new guidance to increase the associated fines should they see fit.

The Committee may be interested to note that the Scottish Government recently ran a public consultation on this subject and the results were published on 30 September 2022. 70% of respondents (243 out of 345) agreed that PCN's should be increased with 100% of local authorities agreeing with a proposed increase. Further details can be found here: [Consultation on Penalty Charge Notices for Parking Enforcement - Scottish Government - Citizen Space]

Although these results point towards a desired increase, due to the cost-of-living crisis, the decision was made to not increase PCN rates at that time. However, I can confirm that Transport Scotland has commenced a review of PCN levels.

(4) In relation to changing interest rates on PFI projects with long term deals which have variable interest rates, you asked for further information on the impact of increased payments on the Scottish Government and local authorities.

The majority of PFI unitary payment charges are indexed linked meaning that payments can increase with inflation each year (unlike PFI, NPD [Non-Profit Distributing] contracts are much less sensitive to inflation as the majority of the payments are not indexed linked). The impact of inflation rates on these PFI payments will be reflected within our latest annual PFI data update which is available from the Scottish Government website at the following link: www.gov.scot/publications/ppp-pfi-projects-unitary-payment-charges

The latest published data shows that the total estimated cost of all remaining unitary payment charges from 2022-23 to 2041-42 relating to the 38 local authority PFI contracts is approximately £8.36 billion. This is an overall increase of approximately £390 million (4.85%) in the remaining payments since the previous update. In addition, the total estimated cost of all remaining unitary payment charges from 2022-23 to 2041-42 relating to all 75 ongoing PFI contracts is approximately £15.46 billion. This is an overall increase of approximately £770 million (5.25%) in the remaining payments since the previous update.

The Scottish Government shares the Convener's concerns around PFI contracts which are often complex and need active management by the public sector. As a government, we are committed to ensuring that PFI contractual obligations are delivered and that contracts are affordable. That is why we have asked the Scottish Futures Trust (SFT) to work with public bodies to realise PFI contract management improvements including re-scoping services, sharing in insurance cost savings, and optimising the risk transfer in contracts. SFT have published several guidance notes in relation to operational contract management which are available from their website at the following link:
www.scottishfuturestrust.org.uk/publications/tag/operational-ppp

(5) Mr Johnson also asked for a global figure for the proportion of the Scottish Government budget that is demand led.

This analysis will be undertaken on the latest 2023-24 budget information for portfolios and a response will be provided to the Committee as soon as possible.

I hope that this information this assists the Committee.

JOHN SWINNEY

Annex A

An Leas-phrìomh Mhinistear agus Ath-shlànachadh Cobhid
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19 January 2023

Dear Kenneth,

At the Finance and Public Administration Committee evidence session on the 2023-24 Scottish Budget on 10 January, I agreed to write to the Committee to clarify the following matters.
You asked what the additional resource cost to the Scottish Government is per £1 increase to the hourly wage of social care workers.

The cost of each £1 uplift to the minimum hourly rate for Adult Social Care workers in the third and independent sectors costs approximately £250 million. This is what it would cost to fund a minimum hourly rate of £11.90, in addition to the £100 million already in the 2023-24 Budget for the £10.90 minimum rate. This does not include social care workers employed by Local Authorities who are covered by Local Government pay negotiations.

Mr Lumsden asked for further information on the revaluation of non-domestic rates, particularly regarding what the valuation roll has increased from and to.

The Scottish Fiscal Commission (SFC) forecast for non-domestic rates (NDR) contributable income is £2,818 million in 2022-23 and £3,075 million in 2023-24, a growth in income of £257 million, or 9.1%. The two key factors that explain the growth in NDR income in 2023-24 compared to 2022-23 are the ongoing 2023 revaluation, and the devolution of Empty Property Relief (EPR) to local authorities on 1 April 2023. Reliefs, such as Empty Property Relief, cause the NDR income forecast to be lower than it otherwise would be. The Local Government settlement allocated £105 million of funding to local authorities in 2023-24 as a result of the devolution of this relief. If forecast NDR income for 2032-24 is reduced by the value of Empty Property relief allocation, the growth relative to 2022-23 would be 5.4%, which is aligned with the estimated growth in rateable value in 2023-24 as a result of the revaluation.

As revaluation was ongoing at the time the NDR forecast was finalised, Budget decisions were made using draft values provided by Assessors to the Scottish Government where these were available as at 23 November 2022, and imputed values otherwise. Based on this data, it was estimated that total rateable value on the valuation roll (£7,281 million) would increase by an estimated 5.2% at revaluation to £7,656 million. It should be noted however that draft values can change up to 31 March 2023, for instance, ratepayers can make representations to Assessors on their draft values. Final rateable values may therefore differ from draft values, and the growth in total rateable value at revaluation may differ from the growth assumed at the time the NDR forecast for the Scottish Budget 2023-24 was finalised.

Once final values are available after the publication of the valuation roll which comes into force on 1 April 2023, the Scottish Government intends to make available statistics on the impact of the revaluation across the NDR tax base.

Ms Smith asked for further information regarding the distributional analysis of the Income Tax changes.

In response to this question, I stated, *"Essentially, the steps that we are taking are affecting individuals who are in the top two quartiles of the population in terms of earnings."* However, I recognise my answer accidently misstated the impact of the policy and would like to take the opportunity to correct this. Distributional analysis of the 2023-24 Income Tax policy published alongside the Budget demonstrates that the impact of the changes announced are concentrated on the top two income deciles, both in cash terms and relative to their gross income. The distributional analysis can be viewed here: [Scottish Income Tax: distributional analysis 2023-24 - gov.scot (www.gov.scot)]

Mr Greer asked when the Spring Budget Revision can be expected, and if the schedule of this has been impacted by pay awards not yet agreed.

The draft Spring Budget Revision ('SBR') is currently scheduled to be laid in Parliament on 2 February. The scheduling of this has not been impacted by any ongoing discussions around pay awards and is consistent with the laying date for the previous year's Spring Budget Revision.

The SBR must be enacted before the end of the financial year on the 31 March 2023. There is very limited scope to delay the revision given the time required to incorporate the committee evidence session as well as the normal parliamentary procedures required to approve the SSI.

I would note that the UK Government's 2022-23 Supplementary Estimates process is still ongoing. This process will determine the Scottish Government's final block grant funding position for 2022-23. Whilst we expect information on any changes to the block grant in the coming weeks, the exact date for finalisation of the position is not yet confirmed. The timing of the UK Supplementary Estimate process makes fully reflecting all changes within the SBR challenging, with very late UK Budget changes exacerbating that challenge. We will keep the timing of the SBR under review, although, as noted above, the scope for any delay is minimal.

Mr Greer requested further information on the scale of the difference between the revenue raised from the 2018-19 Income Tax reform and the behaviour changes that the SFC assume would happen.

Published outturn data shows that Scottish Income Tax raised £127 million more than the corresponding Block Grant Adjustment in that year (Fiscal framework data annex: December 2022 -

gov.scot (www.gov.scot)). It is important to note that this reflects differences in policy as well as economic and tax performance, relative to the rest of the UK.

However, putting a quantitative estimate on the amount of additional tax that our policy reform has raised is not straightforward. Firstly, we will never know for certain how much the policy generated as we are comparing the published outturn data against a hypothetical scenario that was not observed in practice. Secondly, despite extensive research in this area, there is still considerable uncertainty when it comes to measuring taxpayers' behavioural responses to Income Tax changes. This is why we continue to work in close partnership with other stakeholders, including HMRC, to monitor and develop the emerging evidence base.

To further inform the public debate regarding income tax policy, in December 2021 the Scottish Government published its own policy evaluation of the 2018-19 changes to a five-band income tax system, drawing on new Scotland- specific evidence on taxpayers' behavioural responses published by HMRC (Estimating Scottish taxpayer behaviour in response to Scottish Income Tax changes introduced in 2018 to 2019 - GOV.UK (www.gov.uk)). As shown in Table 5, our evaluation estimated that 2018-19 Income Tax policy raised between £230 to £245 million, compared to mirroring policy in the rest of the UK. This was around £60 to £70 million lower than would have been expected using the estimates of taxpayers' responsiveness at the time the policy was introduced. The full policy evaluation is available to view here: Scottish Income Tax: 2018-19 policy evaluation - gov.scot (www.gov.scot)

Mr Johnson asked if the Scottish Government will be producing a Classification of the Functions of Government (COFOG) analysis of last year's Budget document in addition to the 2023-24 Budget.

I can confirm my intention to publish a COFOG analysis for 2021-22, 2022-23 and 2023-24, that will reconcile with the budget aggregates as included in the Scottish Budget 2023-24. This will be published before February recess.

I hope this assists the Committee.

JOHN SWINNEY