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Dear Kenneth

2025-26 SCOTTISH BUDGET – PRE-BUDGET SCRUTINY REPORT

Thank you to the Committee for its pre-Budget Scrutiny report on the 2025-26 Scottish Budget. I have carefully considered the points raised by the Committee and offer the Scottish Government's response in the attached document.

This Government has been clear with the Scottish Parliament and the public on the extent of challenges facing Scotland's public finances, now and in future years. I welcome the improved working with the new UK government and in taking forward the spending plans that I have set out today, I look forward to working with the Chancellor through the UK Spending Review in the Spring. Greater certainty on future funding for the Scottish Government will be essential for our financial planning and sustainable management of public finances, and making progress with the areas reflected in the pre-budget scrutiny report.

I look forward to our further engagement on the 2025-26 Scottish Budget.

Yours sincerely,

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Scottish Government Response to the Finance and Public Administration Pre-Budget Scrutiny Report on 2025-26 Scottish Budget

Topic	Paragraph	FPAC Recommendation	Government Response
Context for pre-budget scrutiny	13-16	<p>Given the Budget Process Review Group’s recommendation of an annual MTFS and the Committee’s continued request that the Scottish Government take a longer-term approach to financial planning, we are disappointed at the Scottish Government’s decision not to publish an MTFS during 2024. The absence of an MTFS this year has undermined our ability to consider how the priorities for the next Budget sit within this longer-term context. The Committee therefore seeks assurances that this situation will not be repeated in future years.</p> <p>While welcome, the Scottish Government’s fiscal statement focuses primarily on immediate pressures with little medium or longer-term outlook.</p> <p>As requested in our letter of 3 September 2024, the Committee expects the Scottish Government to provide medium-term projections (tables of figures usually included in the MTFS) alongside the 2025-26 Budget where possible, as well as the latest projected 2024-25 spend, to aid scrutiny and transparency.</p>	<p>We recognise the importance of the MTFS for the Committee to support its pre-budget scrutiny. As the Committee will understand, the delays experienced in 2024 were largely dictated by circumstances out with the control of the Scottish Government. While the Scottish Government will endeavour to produce an MTFS each year in line with the Written Agreement with the Committee, it is not possible to provide an absolute assurance that this will always be possible.</p> <p>It is appreciated that the Committee has acknowledged that the initial delays were driven firstly by the Parliament needing to appoint a new First Minister and then by the UK pre-election period where it was ruled that the MTFS could not be published due to its content during that time.</p> <p>If there is a need to delay the MTFS in future years, the Scottish Government is committed to engaging with the Committee to seek a new date or provide an alternative solution to support its pre-budget scrutiny. The Scottish Government welcomes the constructive dialogue with the Committee this year on potential alternative approaches.</p> <p>The Scottish Government is now awaiting the conclusion of the multi-year UK Government Spending Review in Spring 2025 which will impact significantly on Scottish Government funding over the medium-term.</p> <p>The funding tables at Annex B in the 2025-26 Scottish Budget document have been updated to include multiyear funding assumptions to the end of the forecast period. Given the forthcoming UK Government spending review, and MTFS next year, we are not updating multiyear spending projections at the 2025-26 Scottish Budget.</p>

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Topic	Paragraph	FPAC Recommendation	Government Response
Context for pre-budget scrutiny	17	<p>The Committee considers that the Scottish Government publishing impact assessments several months after it references them in other substantive policy documents is not good practice, nor is it helpful for Parliamentary scrutiny. Committees must have the opportunity to fully examine the Scottish Government’s assessment of the potential impacts of its spending decisions on different areas of society. We therefore request that all impact assessments are published at the same time as the corresponding announcements and publications.</p>	<p>The Committee’s interest in this is understood. The Scottish Government ensured that the Fiscal Statement was compatible with all statutory duties.</p> <p>The Government’s Fiscal Statement in September 2024 was produced at pace, following the UK Chancellor’s July Statement.</p> <p>As this was the first time that new statutory duties were applied to cross-government processes, the Scottish Government needed to ensure that the information co-ordinated across the government was robustly quality assured, accurate and comprehensive. The government has published the Equalities and Fairer Scotland Impacts for the measures in the Fiscal Statement, and now plans to publish the Children’s Rights and Wellbeing impact assessment, the Consumer Duty assessment and the Island Communities assessment. These assessments are expected to be published by 18 December. This approach is in line with the required timescales set out in law and guidance where a duty for publication applies.</p> <p>The Scottish Government’s approach to impact assessments is focused on meeting its statutory duties whilst also ensuring the approach is proportionate and accurate.</p>

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Topic	Paragraph	FPAC Recommendation	Government Response
Scottish Government Priorities	35-36	<p>The Committee asks that the Scottish Government learns from concerns raised last year that spending decisions were not properly aligned with Government priorities. To this end, we request that, in its response to this report, the Scottish Government sets out clearly how it is targeting spending in its 2025-26 Budget towards achieving each of the First Minister’s four priorities. The response should also be transparent about where it has not been possible to align spending to priorities, and why.</p> <p>As part of a strategic approach to financial planning, this transparency is essential in informing future spending decisions by building up a picture of where spending is making a difference and where funds may need to be targeted to deliver against key priorities.</p>	<p>We are committed to maintaining public finances on a sustainable trajectory and our three-pillar fiscal strategy sets out how we are ensuring public money is fully focused on delivering government priorities, underpinned by necessary reform and prioritisation to maximise the impact of public spending.</p> <p>We will continue to be guided by the priorities set out by the First Minister and will focus spending on Government’s key priorities. The 2025-26 Scottish Budget document sets out fuller detail of how next year’s funding is supporting the delivery of these priorities.</p>
	37	<p>The Committee notes the UK Government’s plans to increase day-to-day department spending by an average of 2% per year in real terms between 2023-24 and 2029-30 “to support public services”. The UK Autumn Budget also states that the Scottish Government will receive an additional £3.4 billion in Barnett consequentials for 2025-26.</p> <p>We would therefore welcome details of the basis on which the Scottish Government will decide where to direct the additional funding received.</p>	<p>While the 2025-26 funding position remains improved from the funding expected under the last UK Government, the block grant increase in resource funding is only around 1% in real terms. This continues to present a challenge given the backlogs that have built up, the demand pressures that public services face, and the level of spending locked into public sector pay and the social security benefits that this Government is proud to deliver.</p> <p>The 2025-26 Scottish Budget is focused on delivering the First Minister’s key priorities.</p> <p>There has also been significant movement in the funding position since the Autumn Budget Revision was published, principally as a result of the UK</p>

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			Budget on 30 October. Dispensation of the additional funding available in 2024-25 will be set out at the Spring Budget Revision (SBR) in the usual manner.
Topic	Paragraph	FPAC Recommendation	Government Response
	38	The Committee has concerns regarding the apparent lack of alignment between the First Minister’s priorities and the National Performance Framework. We further note that national outcomes are often not referred to at all in strategy documents such as the Programme for Government. The Committee looks forward to publishing our detailed recommendations in relation to the proposed national outcomes and their implementation in a separate report in November 2024.	The Scottish Government has noted this and the Committee’s planned report on the National Performance Framework (NPF). The Government will address the Committee’s comments on the NPF in its response to that report.
	39	The Committee previously recommended that the Scottish Government should rationalise the number of strategy documents it holds to ensure clarity of goals and better evaluation of impact. We therefore welcome the First Minister’s intention to provide “more concrete actions and fewer strategy documents” . We seek an update on progress with this exercise, including any reduction in numbers achieved, as at December 2024 compared with the year before, particularly in the light of the Scottish Government’s recent proposal to create an additional strategy document (Fiscal Sustainable Development Plan).	The Scottish Government remains committed to delivering outcomes which impact on the lives of the people of Scotland. Our strategic priorities are set-out in the Programme for Government and individual strategies set-out in more detail how these priorities will be delivered. There is no central information held on reporting of the number of strategy documents, as decisions of this nature are made by individual cabinet secretaries.

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Topic	Paragraph	FPAC Recommendation	Government Response
	40	<p>We also ask the Scottish Government to consider adopting a similar approach to that in Estonia where (a) the Government’s small number of strategy documents are linked to budgets with clear metrics, including public satisfaction, and (b) a ‘Tree of Truth’ style accessible dashboard of objective metrics showing how the Government is performing against its key goals, using national statistics.</p>	<p>The Scottish Government’s National Performance Framework supports decision-making by bringing together data and reporting systematically and objectively across a range of economic, social and environmental indicators. We measure progress at the level of the individual National Indicators, which are currently grouped within National Outcomes so we can say how many indicators are improving, worsening, or maintaining within each Outcome. The indicators meet a minimum data quality level to be included, including a minimum frequency of publication to effectively track progress over time. These are published on the NPF website, updated quarterly as data becomes available.</p> <p>Our implementation plan will ensure the NPF is consistently and effectively applied across Scotland. The NPF does not have time-specific commitments, because it is about continuous improvement.</p>
	41	<p>It is the Committee’s view that the mandate letters issued to Cabinet Secretaries by the previous First Minister provided an opportunity for better accountability of decision-making and delivery of outcomes. We therefore seek confirmation that the mandate letters will be updated to reflect the four new priorities and that the actions of Cabinet Secretaries in terms of delivering these priorities will be measured and publicly reported</p>	<p>The First Minister has been clear that the Programme for Government sets out the Government’s priorities for the year ahead. The commitments in it are affordable, impactful, and deliverable and create the priorities he and his Cabinet will deliver.</p>

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Topic	Paragraph	FPAC Recommendation	Government Response
Budgeting Approaches	46-48	<p>There is little evidence that the Scottish Government is carrying out sufficient medium- and longer-term financial planning. Year-to-year budgeting has also become more challenging, with emergency in-year savings announced in each of the last three years. We note the Cabinet Secretary’s focus on the “here and now” and her view that multi-year plans arising from the UK Government’s Spending Review in late Spring 2025, may provide an opportunity to “do things differently”.</p> <p>The Committee welcomes the UK Government’s commitment to “one major fiscal event a year and more regular Spending Reviews”, the latter of which the Scottish Government has said provides the certainty it needs to put Scotland’s public finances on a more sustainable footing.</p> <p>Nevertheless, the Scottish Government cannot stand still, waiting for the next fiscal event to happen before it undertakes longer-term financial planning. We agree with Professor David Bell’s comments that the Scottish Government “should not waste a crisis” as “the current situation is an opportunity to put in place a more coherent and strategic view.” Our recommendations in this report requesting medium-term projections to be provided alongside the Scottish Budget therefore aim to support the Scottish Government to start to plan for the future.</p>	<p>The Scottish Government is fully committed to medium to longer term financial planning, as set out in our three-pillar fiscal strategy in the 2023 MTFS. Our approach is designed to ensure finances are on a sustainable trajectory over the medium to longer term and we are progressing work to deliver on this.</p> <p>The draft Budget progresses action across all three pillars of the fiscal strategy, with focus in 2025-26 on doubling down on reform and efficiencies across our public sector.</p> <p>The 2025 MTFS will be accompanied by a five-year fiscal sustainability delivery plan which will provide more detail on the specific actions being undertaken to deliver sustainable finances.</p> <p>The Delivery Plan will build off the opportunity we have with the upcoming UK Spending Review, and will help support a future Scottish Government Spending Review.</p> <p>The Scottish Government is currently reviewing its options for a Scottish Spending Review.</p>

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Topic	Paragraph	FPAC Recommendation	Government Response
	49	The Committee asks that the Scottish Government’s first Fiscal Sustainable Delivery Plan, which is to accompany the 2025 MTFS, confirms what actions have been taken, and are planned, in response to the SFC’s March 2023 Fiscal Sustainability Report and associated parliamentary debate held in October 2024. This longer-term outlook is crucial if the challenges highlighted by the SFC are to be addressed.	<p>Our Fiscal Sustainability Delivery Plan will outline the specific actions being taken under each of the three pillars set out in the 2023 MTFS to deliver fiscal sustainability, including the actions we are already taking to do so.</p> <p>We will consider the Committee’s recommendation and will update the Committee accordingly as this work develops.</p>
	50	We welcome confirmation that a more collaborative and constructive relationship is being developed between the UK and Scottish Governments, which we hope continues in relation to the timing and nature of future UK Budget and Spending Review announcements. We request confirmation that the Scottish Government will carry out a full Scottish Spending Review (SSR) in 2025 and look forward to examining the outcomes in detail. We ask the Scottish Government to set out the process for engaging the Parliament and its committees, as well as the Scottish Fiscal Commission, in this SSR process.	The Scottish Government is currently reviewing its options for a Scottish Spending Review and will update the Committee in due course. This update will set out a process for engaging with Parliament, its committees and the SFC.
	51	We also ask the Scottish Government to explore whether a zero-based budgeting approach might be suitable in a Scottish context, learning from the experience of Estonia. One option, for example, would be to pilot the approach in one or two portfolio areas for the Scottish Budget 2026-27 and thereafter evaluate the approach for efficiency and delivery of outcomes.	The Scottish Government is currently reviewing its options for a Scottish Spending Review and will update the Committee in due course.

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Topic	Paragraph	FPAC Recommendation	Government Response
Public Sector Pay Policy	58-60	<p>The Committee understands that the Scottish Government’s public sector pay growth assumption of 3% was factored into the Scottish Budget 2024-25 in December 2023 based on affordability. It is therefore disappointing that the Scottish Government’s Pay Policy 2024-25, which contained the same assumption, did not materialise until May 2024. We also note that the Cabinet Secretary now appears to be considering whether an annual Pay Policy is needed at all.</p> <p>With over half the resource budget now being spent on public sector pay, the Committee strongly urges the Scottish Government to produce a Pay Policy each year, setting out realistic pay growth assumptions. This should wherever possible be published alongside the Scottish Budget to allow scrutiny of how these assumptions might impact on other areas of the Budget, and to inform the SFC’s December Forecasts.</p> <p>The Scottish Government should also consider the suggestion from the FAI that the annual Pay Policy should include scenario plans for how the Scottish Government would fund higher than expected pay deals. This more strategic and transparent approach to public sector pay could also support the Scottish Government in mitigating last-minute emergency spending controls.</p>	<p>We remain committed to the development of an annual pay policy, that is fair, affordable and sustainable underpinning this governments investment in public services.</p> <p>We agree with the Committee’s view, that public sector pay is a key driver of spending and of the necessity to share our pay assumptions with the Scottish Fiscal Commission in a timely manner.</p> <p>On 4th December, the Cabinet Secretary for Finance and Local Government announced a public sector pay policy alongside the draft 2025-26 Scottish Budget, that sets out a multi-year framework from 2025-26 to 2027-28 and pay metrics above forecast levels of inflation.</p> <p>This policy revises the multi-year Pay Policy issued in May 2024, acknowledging both the updated fiscal context following the UK Budget and updated inflation forecasts.</p> <p>The Scottish Government would welcome a four-nations approach to pay reviews and further clarity on how we can explore opportunities to share intelligence on content and timing of pay deals when appropriate. The forthcoming UK spending review will provide much needed clarity on funding levels which will help to inform our budget setting and move spending onto a more sustainable path.</p>

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Topic	Paragraph	FPAC Recommendation	Government Response
Social Security Spending	65-66	<p>In our Report on the Scottish Budget 2024-25, the Committee asked the Scottish Government how it will continue to assess the long-term affordability and sustainability of its social security policies and their impact on other areas of spend. In its response of 16 February 2024, the Scottish Government said it “will continue to take a responsible and capable approach to Scotland’s finances as new budget pressures emerge”, including “monitoring all areas of expenditure during the year, prioritising spend, and maximising efficiencies”.</p> <p>We do not consider this to be an adequate response and therefore repeat our request that the Scottish Government now carries out this full assessment. Outcomes should be included in the 2025 MTFS and used to inform future budget planning.</p>	<p>The Scottish Government will provide an update on its work on fiscal sustainability in social security in the 2025 MTFS. The work will recognise the challenging fiscal context and seek to deepen understanding of the drivers of devolved benefit expenditure and the impact of policy changes/expenditure in other policy areas. The aim of the work is to gather evidence on the optimisation of social security benefit expenditure and our capacity for evidence-based decision making and prioritisation of this, informed by evidence of impact and demand.</p>
ScotWind Revenues	69	<p>The Committee recognises the challenges faced by the Scottish Government in meeting immediate financial pressures. However, we do not consider it to be good practice to use non-recurring revenue to fund recurring expenditure. We therefore hope that, with effective strategic financial planning in the future, as recommended in our report, the Scottish Government can avoid this practice in the future.</p>	<p>The Scottish Government has sought to minimise use of these revenues as far as possible. However, there are limited options available to the Scottish Government under existing fiscal framework arrangements to manage spending risks. It is crucial that the UK Government provides greater funding certainty to the Scottish Government to allow it to plan ahead effectively.</p>

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Topic	Paragraph	FPAC Recommendation	Government Response
Bonds	72-73	<p>The Committee welcomes the Cabinet Secretary’s commitment to provide updates on progress regarding the Scottish Government’s consideration of the Investor Panel’s recommendation on issuing bonds. We ask the Scottish Government to share with the Committee details of the issues it is considering, including risks and benefits, to inform its final decision, for transparency and to aid scrutiny.</p>	<p>The Scottish Government has published a memorandum on borrowing policy alongside the 2025-26 Scottish Budget.</p> <p>For Capital Borrowing this includes an update on the work towards a future Scottish Government Bond issuance.</p>
Tax Strategy	81-84	<p>The Committee recommends that the Scottish Government’s upcoming Tax Strategy provides a framework within which tax policies are designed to contribute to the longer-term sustainability of Scotland’s public finances.</p> <p>The Committee is, however, disappointed that the Strategy will not, as originally intended, be published in draft form which would have been a more open and transparent process. It would also have provided the opportunity to attract a wider range of views on specific proposals, and enabled effective scrutiny of those proposals, ultimately leading to a better output.</p> <p>The Committee therefore asks the Scottish Government to consider how best to reflect the views of our witnesses as set out above, and in written and oral evidence we received, in the final Tax Strategy. This includes issues such as improving data and evaluation of behavioural change, adding a ‘competitiveness’ principle, and how tax policies are performing in relation to economic outcomes.</p>	<p>The Scottish Government’s draft Tax Strategy was postponed following the announcement of the UK general election and subsequent plans for UK fiscal event. Given the need to consider tax policy decisions as part of a full forecasting and budget process, it was decided that the final Tax Strategy would be published alongside the 2025-26 Scottish Budget.</p> <p>Continuing with a public consultation on the Tax Strategy would have further delayed publication of the final version, meaning it could not be published with the new Scottish Budget. In lieu of a public consultation, the Government put in place a programme of consultative engagements, engaging beyond our traditional stakeholder groups to broaden the range of contributions and views.</p> <p>Engagement on the Tax Strategy began following the commitment in the 2023 MTFS, over the period of 20 July 2023 to 6 November 2024. Scottish Ministers and Scottish Government officials have engaged with around 65 external organisations and stakeholders over the course of the development of the Tax Strategy, many of which were engaged with on multiple occasions in a variety of formats.</p>

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Topic	Paragraph	FPAC Recommendation	Government Response
Income Tax	97	The Committee asks the Scottish Government to consider how it might learn from Estonia’s ‘simple and competitive tax system,’ including working with HMRC and Revenue Scotland to make it easier to complete and submit tax returns, which has the potential to improve compliance.	<p>This recommendation is noted. Recent Scottish Government research has begun to explore international tax policy, and the Tax Strategy sets out our intention to further broaden our evidence on how the tax environment impacts on the competitiveness and attractiveness of Scotland’s economy. As part of this research, we will consider what lessons can be drawn from other countries. I look forward to further engagement on this with the Committee and stakeholders, ahead of publishing this work next year.</p> <p>Ensuring robust compliance arrangements are in place for Scottish Income Tax remains a priority for the Scottish Government. The Tax Strategy sets out our intention to strengthen our approach to Scottish tax compliance in collaboration with HMRC and Revenue Scotland. This includes working with HMRC to enhance the analysis of any further compliance risk as a result of the recent increased divergence from the rUK Income Tax system.</p>
Income Tax	98	As a matter of urgency, the Committee asks the Scottish Government to work closely with the UK Government to address current anomalies relating to marginal tax rates in Scotland.	<p>The high marginal tax rate faced by Scottish taxpayers who have earnings between the Scottish and rUK Higher rate thresholds results from the incomplete devolution of tax powers.</p> <p>Accounting for the size and composition of Scotland’s tax base, lowering the higher rate of tax paid on earnings between £43,663 – £50,270 without losing vital revenue would require us to make significant increases to the Basic and Intermediate rates of tax which would imply higher taxes for Scottish taxpayers earning below the current median income. Given the pressure on household finances at the current time, I have judged this to be inappropriate.</p> <p>We continue to press the UK Government for the devolution of full powers of Income Tax and National Insurance to be devolved to Scotland so that the decisions affecting the people who live and work here are decided by this Parliament.</p> <p>I have previously written to the UK Government to highlight the urgency of this matter and will continue to engage with the Chancellor on the interactions and subsequent impacts of partially devolved tax powers.</p>

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Topic	Paragraph	FPAC Recommendation	Government Response
Tax strategy	99	The forthcoming Tax Strategy should specify that, when developing future tax policy, the Scottish Government should assess how individual rates and bands in Scotland would interact with the UK-wide tax system, to avoid such significant issues arising.	<p>It is standard practice for the Scottish Government to consider the impact of reserved policy decisions on the tax base in Scotland when setting tax policy. For example, the Scottish Government’s Distributional Analysis of the 2024-25 Scottish Budget considers the impact of significant changes to reserved tax policy (National Insurance Contributions) alongside changes to devolved tax policy decisions taken at that Budget: Scottish Budget 2024 to 2025: distributional analysis - gov.scot (www.gov.scot)</p> <p>The Scottish Government is cognisant of the marginal tax rates in Scotland, and rUK, and will continue to give this matter due consideration in the development of Income Tax policy.</p>
Tax Behaviour and Tax Advisory Group	100	We note the differing views of witnesses in relation to the potential behavioural impacts arising from tax policy. The Committee believes that this strengthens the argument for more detailed research on the behavioural effects of differential income tax systems in Scotland and the rest of the UK. We therefore ask the Scottish Government to continue to work with HMRC to evaluate tax policy for behavioural impacts as it evolves, and that this data is reviewed by the Tax Advisory Group on an ongoing basis.	<p>The Scottish Fiscal Commission produces detailed annual reports forecasting the impacts of key devolved policies, including Scottish Income Tax. This includes estimating the potential impact of behavioural responses as a result of Scottish Government’s policy decisions.</p> <p>The Tax Strategy also sets out our commitment to further assess taxpayer behaviour change and identifies enhancing the evidence base on behavioural responses to Income Tax policy as a research priority for Scottish Government. There is an ongoing programme of analytical work underway to conduct further assessment in this area which will enlist internal and external researchers to develop the evidence base over the coming year.</p> <p>In addition to this work, earlier this year we funded HMRC to produce and publish two separate pieces of analysis. These were a longitudinal dataset tracking taxpayer movements across the UK and a behavioural study, measuring the migration and labour market participation responses to our Income Tax policy changes in 2018-19. The longitudinal dataset shows a positive net migration of taxpayers since the devolution of tax in 2017-18 up to 2021-22, the latest year of available data. The behavioural study shows a slight reduction in migration in 2018-19 relative to if no policy divergence has occurred. No evidence of this effect persisting to 2019-20 was established by HMRC and similarly no impact on labour market participation was established.</p> <p>We will continue to work in close partnership with HMRC to build on this work. We will also continue to seek the advice of the Tax Advisory Group and other stakeholders on developing a tax system that is fit for purpose, delivers sustainable public finances, and supports high quality public services and a flourishing economy.</p>

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Topic	Paragraph	FPAC Recommendation	Government Response
Other National Taxes	105	The Committee requests that the Scottish Government keeps the Committee updated on its progress with introducing an Air Departure Tax, including its discussion with the UK Government.	The Scottish Government will keep the Committee informed of progress towards the implementation of Air Departure Tax.
Sustainability of local government finances	114	It is encouraging that both the Cabinet Secretary and COSLA have spoken of their constructive budgetary discussions and that progress is being made towards agreeing the fiscal framework between the Scottish Government and local government. We recommend that the fiscal framework clearly sets out an overall approach to securing the long-term sustainability of local government finances, including local levies and flexibility.	The Verity House Agreement made a commitment to develop a robust Fiscal Framework with Local Government that set out clear routes to local revenue raising and fiscal flexibilities. This commitment was reiterated in the progress report on the Fiscal Framework published alongside the 2024-25 Scottish Budget - Progress Publication, December 2023: Fiscal Framework between Scottish Government and Local Government (www.gov.scot) . There has already been notable progress on delivering these commitments to help secure the long-term sustainability of local government finances, in particular, the development of the Visitor Levy and Cruise Ship Levy.

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Topic	Paragraph	FPAC Recommendation	Government Response
Sustainability of local government finances (continued)	115	The Committee further seeks an update on when a final version of the fiscal framework is now expected to be agreed, given that this was originally expected to conclude in September 2023.	<p>We have made significant progress on delivering a Fiscal Framework with Local Government, but it may be unhelpful to consider a final version of the Framework to be a desirable objective. Instead, the Framework should be viewed as an evolving document that will likely change over time to ensure both Scottish and Local Government continue to benefit from its core objectives.</p> <p>The foundations of the framework are being applied in practice through the simplification and consolidation of the Local Government Settlement, development of clear routes to deliver local revenue streams such as the Visitor Levy and Cruise Ship Levy, and establishing more frequent and meaningful budget engagement. We continue to work with Local Government to progress the Fiscal Framework and will keep the Committee informed of that progress.</p>
	116	We ask the Scottish Government to work with local government in identifying where existing commitments and ring-fencing may no longer be needed. This could allow funds to be targeted towards important preventative and early intervention work, which has the potential to deliver better outcomes and save money in the longer-term.	We have committed to review ring-fenced funding under the Verity House Agreement (VHA) agreed with COSLA. The 2024-25 Scottish Budget notably invested in the VHA by baselining almost £1 billion of funding across Health, Education, Justice, Net Zero, and Social Justice. Reaching an agreement with Local Government on an assurance and accountability framework is likely to be required to achieve further progress on this ambition but work on that framework continues alongside the budget engagement process.

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Topic	Paragraph	FPAC Recommendation	Government Response
Council Tax reform	120-21	<p>The Committee understands the frustration of witnesses at the lack of progress in relation to council tax reform and revaluation of residential properties. We also recognise that making changes to local taxes would inevitably result in ‘winners’ and ‘losers’ amongst homeowners and those in rented accommodation.</p> <p>Nonetheless, given this work is long overdue, we ask the Scottish Government to set out, following the Cabinet Secretary's suggestion that cross-party consensus will be required, how it will create the space for discussions and consensus-building in this parliamentary session. The Scottish Government should also build into the process any learning from the experience in Wales and other countries regarding reform and revaluation.</p>	<p>We are invested in delivering fairer, more inclusive, and fiscally sustainable forms of local taxation. Our Joint Working Group with COSLA on Council Tax reform has explored a broad range of measures with a core aim of providing fairness to the system and successfully delivered changes to the Council Tax treatment of second and long-term empty homes. This includes a 100% Council Tax premium on second homes from 1 April 2024.</p> <p>We acknowledge that, in its current state, Council Tax is not as fair as we would like it to be. The Council Tax reform debate has been characterised by consensus on the need for reform, but with differing views on what that reform should look like. The Joint Working Group is at looking at processes to build a consensus around meaningful changes to Council Tax. Given the competing views on the nature of reform, the Joint Working Group is in agreement that consensus is necessary to enable progress.</p>
Growing the tax base	127	<p>The Committee welcomes the Cabinet Secretary's commitment to consider what more the Scottish Government can do to support research and development, recognising the important role that universities play in attracting investment, supporting Scotland's world-leading sectors, and building a highly skilled workforce. We look forward to receiving the Cabinet Secretary's proposals in this area as part of the Scottish Government's response to our report.</p>	<p>The Scottish Government recognises the important role of research in delivering on Scotland's ambitions.</p> <p>We have prioritised funding to continue to support high-quality research and knowledge exchange across Scotland, increasing the investment in Higher Education (HE) capital (which includes funding for research) to over £350 million for 24-25. In addition, we continue to fund a portfolio of knowledge exchange and innovation investments to support our critical mass of research and innovation excellence, i.e. Innovation Centres, Interface and Alliances for Research Challenges (ARCs).</p> <p>Enterprise agencies also collaborate regularly with universities by investing in the commercialisation of research, economic infrastructure on university campuses and providing risk capital to promising university spinouts.</p>

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Topic	Paragraph	FPAC Recommendation	Government Response
Growing the tax base (continued)	128	<p>We further welcome confirmation that the Cabinet Secretary and Deputy First Minister are working together to ensure that the Tax Strategy is 'joined up' with the National Strategy for Economic Transformation (NSET). We however note the concerns of Audit Scotland that NSET "currently lacks collective political leadership and clear targets" and seek an update on progress with addressing these concerns.</p>	<p>The First Minister has formally agreed to the creation of the Cabinet Sub-Committee on Investment and the Economy. The Cabinet Sub-Committee, which is chaired by the Deputy First Minister, will help create a business environment that drives investment and growth. The Cabinet Sub-Committee will help us achieve that by:</p> <ul style="list-style-type: none"> • Identifying opportunities/critical blockers/threats to investment across portfolios. • Supporting collective decision making on the phasing and relative prioritisation of activities to secure investment and boost growth – including making progress with the key opportunities identified in the Green Industrial Strategy and ensuring budget decisions are consistent the MTF5. • Demonstrating our intent to prioritise growth and investment, alongside other priorities which have cabinet sub-committees (e.g. child poverty, the Promise, climate change).

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Topic	Paragraph	FPAC Recommendation
Labour market participation and productivity	134	The Committee asks the Scottish Government to set out its ambitions for increasing labour market participation and productivity levels in the workforce in Scotland, with a view to growing the tax base. It should also outline the detailed steps it will take to meet these ambitions, including any pilot projects to support specific groups of society.
<p>To grow our economy, the Scottish Government recognises the importance of making full use of our potential workforce and removing barriers to employment. Helping people into fair, sustainable jobs is central to achieving the Scottish Government’s vision for a wellbeing economy, as well as delivering on the ambitions in Scotland’s National Strategy for Economic Transformation and to tackling child poverty as outlined in Best Start, Bright Futures.</p> <p>The Government’s 2024 Programme for Government (PfG) acknowledged that despite a near record high of payrolled employees, challenges remain – in economic inactivity, an ageing population, and skills shortages. This year we will support those already in work, help more people back into work, and address long-term economic inactivity.</p> <p>The Annual Population Survey (Jul 23 to Jun 24) estimates that the economic inactivity rate for Scotland was at 22.7%, above the UK rate of 21.6%. Evidence also highlights that long-term sickness or disability is the main, and rising, reason for someone being economically inactive (32.0%). Drawing on that evidence the Government has focused its commitments in the PfG to address this challenge:</p> <ul style="list-style-type: none"> • Employability support to meet the needs of all parents or carers on a demand-led basis – ensuring closer working across childcare, education, housing, justice, and health services. • Improving access to health services by April 2025 and introducing enhanced specialist employability support for disabled people across all 32 local authorities by Summer 2025. <p>Alongside this new activity the Government is investing up to £90 million in 2024-25 for the delivery of devolved employability services. This funding will support continued delivery of the No One Left Behind approach and the remaining delivery tail of Fair Start Scotland. Our investment includes specific funding to support more parents to enter employment and increase their earnings as part of our plans to tackle child poverty. Our devolved employability services continue to reach those who face difficulties finding work. Statistics show that progress is being made on the reach of services to disabled people, people with a long-term health condition and people from minority ethnic communities.</p> <p>We will continue to ensure employability services are available in all 32 local authority areas in 2025-26 as we work with local government and wider partners to deliver the priorities set out in our recent Strategic Plan. This will include delivering Specialist Employability Support to disabled people and people with long term health conditions across the country by summer 2025.</p>		

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The Government continues to use its Fair Work policy to drive up labour market standards for workers across Scotland to tackle poverty, advance equality and create more secure, sustainable and satisfying jobs.

The number of accredited Real Living Wage employers is up from 14 in 2014 to over 3,700 in 2024. That is proportionately around 5 times as many accredited Living Wage employers in Scotland than in the rest of the UK. 89.9% of employees in Scotland are paid at least the real Living Wage (2023 data) and some 68,000 workers in Scotland have had a pay rise as a result of accreditation, making a real impact for people in the lowest paid jobs.

Following implementation of the more stringent Fair Work First grant conditionality on 1 July 2023, requiring public sector grant recipients to pay their workers at least the real Living Wage and provide appropriate channels for effective voice, by March 2024, Fair Work First had been applied to over £2.5 billion of public sector grants. We are working to better establish and communicate the business case for implementing Fair Work practices. Evidence shows that employers benefit from a fairly rewarded, respected, engaged, committed, diverse and more agile, flexible workforce through improved recruitment and retention, performance, innovation and productivity.

As well as communicating the business benefits and sharing good practice, we are making it easier for employers and partners to access information on fair and flexible working. Flexible working is an important means to help people, often women, balance work and manage commitments such as caring responsibilities, and can also help disabled people – particularly those with fluctuating conditions – to manage their impairment whilst carrying out their roles in the most productive way.

The barriers to participation and drivers of inactivity are complex and require a coordinated cross-government approach to address. Other related PfG commitments include:

- Improving careers support so that there is better information on career choices, including potential job prospects and earnings and connecting students, schools and employers.
- Leading a new, national approach to skills planning and strengthening regional approaches to ensure the system is responsive to regional and national skills needs; as well as reforming education and skills funding so it is easier to navigate and responsive to learners and skills priorities.
- Ensuring access to affordable, high-quality funded early learning and childcare services; and working with local authorities to increase take up of funded early learning and childcare for eligible two-year-olds.
- Investing £16 million to create a new local childcare offer over the next two years – taking a community-based approach and supporting parents to work or increase hours.
- Providing nearly £2.5 billion to support public transport in 2024-25 – making our transport system available, affordable, and accessible for all.
- Investing nearly £600 million in affordable housing and making available up to £25 million from the Affordable Housing Supply Programme to support the five-year Rural Affordable Homes for Key Workers Fund.

Scottish Government Response to the Finance and Public Administration Pre-Budget Scrutiny Report on 2025-26 Scottish Budget

Topic	Paragraph	FPAC Recommendation
Labour market participation and productivity	135	We further ask the Scottish Government to report back to the Committee on how it will apply more widely the learning from the Marmot Place Approach given its reported success in taking action to improve health and reduce health inequalities. This is with a view to addressing some of the causes of economic inactivity in the working age population.
<p>The Scottish Government is co-developing a Population Health Framework with COSLA, in collaboration with Public Health Scotland (PHS) and Scottish Directors of Public Health, that sets out our long term collective approach to improving Scotland’s health and reducing health inequalities. The Framework focuses on creating health and the primary prevention of ill health. The building blocks of health can be expressed as Sir Michael Marmot’s eight principles for health equity - early years development, education, employment, living standards, healthy places, ill-health prevention, discrimination, and environmental sustainability.</p> <p>The Framework will adopt a whole system approach to working across government and across sectors to improve health and wellbeing outcomes. A key way we will develop our understanding of a whole system approach is through the Collaboration for Health Equity for Scotland (CHES), a partnership between Public Health Scotland and UCL Institute of Health Equity which seeks to apply learning from ‘Marmot Places’ elsewhere.</p> <p>The overall aim of CHES is to answer two fundamental questions:</p> <ol style="list-style-type: none"> 1. What are the most impactful areas for intervention in Scotland to make meaningful progress in closing inequities in healthy life expectancy? 2. How can national and local organisations work more effectively to close the gap between policy intent and impact in these areas? <p>Three Community Planning Partnerships in Scotland will be identified to collaborate with CHES to develop and implement holistic interventions and policies to enhance health equity locally. Learning from these areas will be shared widely through a national learning system which will be established and coordinated by CHES. Further details will be available early in 2025.</p> <p>Ill health continues to be the largest single reason given for economic inactivity in the UK Labour Force Survey publications and addressing this issue is a significant policy priority for the Scottish Government. The Scottish Government supports the Public Health Scotland Healthy Working Lives’ online platform to help employers build mentally healthy workplaces, the delivery of the Mentally Healthy Workplaces network for employers and the delivery of Working Health Services Scotland that provides occupational health support, and signposting, to employees of SMEs with a health condition.</p> <p>The Programme for Government commits to a range of actions to mitigate the trend in economic inactivity and cross-government work to both support people in work to sustain employment, and to support people economically inactive to return to work.</p> <p>As part of development of the Population Health Framework, the Scottish Government is finalising a health and work action plan that will focus on key actions that government, public agencies and business will take to support people in-work with ill health to sustain employment, and to support healthier workplaces, and will be published in 2025.</p>		

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Topic	Paragraph	FPAC Recommendation	Government Response
Capital expenditure	143	<p>The Committee has repeatedly expressed our disappointment at the recent reductions in capital funding available to the Scottish Government. We note the UK Government’s new fiscal rules as well as its plans to increase capital investment by over £100 billion over the next five years, including in transport, housing and research and development. We seek clarification from the Scottish Government how it plans to use any consequential increase in capital expenditure, including to maximise opportunities for investment in areas that stimulate economic growth in Scotland.</p>	<p>The latest OBR forecasts following the Autumn Statement show an improved medium-term outlook for capital. We will focus future capital spend to meet our priorities of eradicating child poverty, growing the economy, tackling the climate emergency and improving public services.</p>
	144	<p>Regardless, the Committee believes that publishing the IIP pipeline reset within the original timetable (December 2023) would have provided much needed certainty and confidence for the private and public sectors to invest in projects that help grow the economy. Repeated delays in publishing this key document are both frustrating and unnecessary and we continue to press for the IIP pipeline reset to be published as early as possible.</p>	<p>Given that the current IIP pipeline covers 2025-26 and 2026-27 it is necessary for us to have a clearer indication of the capital budget available to the Scottish Government in 2026-27 in order to provide certainty on the projects and programmes that can be taken forward in those years. The reset pipeline is intended to give certainty to the construction sector and other stakeholders on the Government’s infrastructure plans and it would not be helpful to publish something ahead of the UK Spending Review, based on only partial information.</p>

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Topic	Paragraph	FPAC Recommendation	Government Response
EU Replacement Funds	147	The Committee understands that some City and Growth Deals have now been confirmed as part of the UK Autumn Budget 2024. We ask the Scottish Government to keep the Committee updated about its discussions with the UK Government on progressing projects in Scotland previously committed to by the predecessor UK Government under the range of EU replacement funds.	
<p>Noted. The current position is that the Scottish Government remains in dialogue with UK Government officials about the “interim” arrangements for the Shared Prosperity Fund – which will run with a reduced £900m budget - and are seeking clarity on how the UKG proposes to engage with all of the devolved governments in relation to its successor programme – which we have been clear should respect the devolution settlement, and not bypass the Scottish Government.</p> <p>Post-UK budget, we understand that the four “Levelling Up Partnerships” in Dundee, Scottish Borders, Argyll & Bute and the Western Isles will be supported, each receiving £20m.</p> <p>The 10 towns in the “Long-Term Plan for Towns” (likely to be rebranded) will receive up to £20m over 10 years.</p> <p>The Levelling Up Fund projects will be retained. Levelling Up culture and associated projects for Perth, V&A Dundee and Dunfermline will all be withdrawn.</p> <p>We are as yet unclear on the final round of the Community Ownership Fund and have sought clarity from the UKG on this.</p>			

Scottish Government Response to the Finance and Public Administration Pre-Budget Scrutiny Report on 2025-26 Scottish Budget

Topic	Paragraph	FPAC Recommendation	Government Response
Public Service Reform	158-159	<p>The Committee is disappointed in the Scottish Government's delay in providing the second update on its public service reform programme which has limited the time available to fully scrutinise progress as part of our pre-budget 2025-26 scrutiny.</p> <p>However, we believe that the format of the update in clearly setting out intended outcomes, activities, case studies, and progress including cash savings already achieved, makes it much easier for the Committee to measure progress. We therefore request that the same format is used in future six-monthly PSR updates. We would also like to see more information on the upfront costs allocated to reform and cumulative savings.</p>	<p>When submitting the update report, the Minister for Public Finance reiterated that the report was postponed due to various factors including the UK pre-election period.</p> <p>The Minister is committed to submitting an update report in December 2024 to return to the original reporting pattern. Beyond December 2024, our intention is to give a full update utilising the same approach.</p>
	160	<p>As part of our effective decision-making inquiry, we learned that the Scottish Government has expanded inward secondments. We recommend that it builds on this approach by considering adopting a more structured model of enabling exchanges between staff in the public and private sector, including through flexible career pathways. In the short-term, the Scottish Government should work with the private sector to encourage staff exchanges on an informal basis and identify and address any potential barriers before moving towards adopting a more structured approach. We further ask the Scottish Government to set out progress towards achieving this model of working in its six-monthly updates to the Committee, to enable scrutiny of progress.</p>	<p>The Scottish Government will continue to use inward secondments within a broad range of actions to build capabilities. Work is ongoing to update our workforce plan to respond to the 2025-26 Budget outturn, from which more detail will be established about the profile of the workforce for the 2025-26 financial year and the capability planning activity within that, and the part inward secondments might play within that. This will ensure inward secondments are being used to best effect to bring in specific skills and experience in targeted areas.</p> <p>Outward secondments from the Scottish Government to external organisations will continue through the existing schemes and this will remain a development opportunity for specific individuals whom individually and organisationally would benefit the most.</p>

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Topic	Paragraph	FPAC Recommendation	Government Response
Public Service Reform (continued)	161	The Committee is encouraged by the focus on preventative and early intervention approaches within the Scottish Government’s PSR programme. We ask the Scottish Government to consider and report back to the Committee on the potential benefits, risks and costs, of introducing a new category of public expenditure on preventative spend, which we were told establishes a benchmark and enables investment to be tracked over time.	Scottish Government is taking forward work on preventative spend as part of the PSR programme and will update the Committee in due course. This work will include developing case studies examining post devolution examples of prevention that have resulted in improved outcomes, cost savings and / or reduced demand.
	162	We note Audit Scotland’s plans to publish a full fiscal sustainability and public service reform report later this year and look forward to using this important document to inform our scrutiny of the Scottish Budget 2025-26. We also intend to continue to examine progress with the PSR programme as part of our Budget scrutiny, including with witnesses from the public sector, some of whom continue to express concerns regarding the pace and nature of progress.	Noted.

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Topic	Paragraph	FPAC Recommendation
Public Service Reform (continued)	163	<p>The Committee looks forward to receiving further details of how the Scottish Government will use our report on Scotland’s Commissioner Landscape: A Strategic Approach, to “set the tone” of the review of the public sector landscape. We also ask that the Ministerial Control Framework is updated to reflect recommendations arising from the ‘root and branch’ review of the SPCB-supported body landscape relating to criteria for setting up new Commissioner-type bodies.</p>
<p>In a challenging financial climate, the Scottish Government must ensure that the resources it has, work as hard as they can to improve outcomes and reduce inequality, now and in the future. The government has already implemented a number of actions to support reform. We have committed publicly that any new public body should be created only as a last resort. We have also given a clear message to public bodies that we should not follow existing operational practices if public services can work more efficiently by adopting new arrangements, nor should the current public bodies landscape remain as it is if we can secure savings and improve service delivery by rationalising public bodies.</p> <p>We currently have the Ministerial Control Framework to support the decision making around the potential need for creating new public bodies and further to this we are finalising an assessment process to support the ongoing review of our already established public bodies. We have recently published a review around corporate functions which was carried out with public bodies to identify opportunities to maximise value and strengthen efficiency and sustainability within the public body landscape. The review also looked at options to deliver savings, for those that raise revenue, opportunities to maximise revenue generation and to provide details of workforce planning, including any efficiency or reform work which will involve workforce reductions. The results of this exercise have shown there has been progress made in creating efficiencies and savings.</p> <p>The Ministerial Control Framework was established to ensure government proposals for the creation of new public bodies are made based on evidence and value for money, and only as a last resort. The MCF has been shared with the Committee, and the government welcomes any input on the draft framework.</p> <p>As a new process, with a number of proposals trialling the framework, we have advised the Committee this is a draft version subject to amendment, but we are committed to publishing a final version of the MCF by the end of this year. We will however delay this to accommodate any recommendations from the Commissioner review.</p> <p>While the MCF is intended for Government proposals, we would advocate for Parliament to consider a similar process being adopted for any non-Government proposals, recognising this would be a matter for Parliament to implement and as such the resources and capacity to carry out any review would need to be provided by it rather than Government.</p>		

Scottish Government Response to the Finance and Public Administration Pre-Budget Scrutiny Report on 2025-26 Scottish Budget

Topic	Paragraph	FPAC Recommendation	Government Response
Digitalisation	170	Drawing on the experience of Estonia, where 1% of GDP is earmarked as stable state funding for IT (since 1998), the Committee asks the Scottish Government to consider whether Scotland should create a permanent spending commitment on IT, which can endure beyond political cycles.	Scottish Government’s Digital Directorate is currently implementing “Digital Portfolio Management,” including the introduction of Scottish Government level control of digital investments through prioritisation; based on business need and contribution to digital public services. A portfolio approach to how Scottish Government manages and implements digital projects will ensure the delivery of a portfolio of projects that is right sized to available funds and capability.
	171	For the X-Road system in Estonia to work effectively in exchanging data, while protecting against cyberattack, public sector systems must be compatible with this central platform. The Committee previously heard that public sector systems in Scotland are, however, rarely compatible with each other. Enabling systems to communicate and exchange information easily is a pre-requisite for the effective and efficient delivery of digital public services. We therefore recommend that as a first step the Scottish Government should set a standard for the interoperability of any newly created digital public service systems.	<p>The Digital Directorate’s approach is exactly what is being requested, and more: an interoperability of any newly created digital public service systems, a ‘build once, use many times’ mantra, and a strategy of engaging all the many government and public sector systems into one integrated approach.</p> <p>We are also pursuing interoperability of data for legacy digital public service systems through our work promoting common data cataloguing and linkage tools as well as data and metadata standards. Findable data through cataloguing legacy data will help us to identify the best standards as we build new systems.</p> <p>At CivTech ‘stitching’ multiple existing data sources together so they communicate and exchange information easily is a common theme: for example, through the DataSpine project with Aberdeen company DeepMiner, Scotland will soon be the first country in the world to have detailed information about every business in the land – from the largest multinational to the smallest unincorporated business– requiring the interoperability of multiple, extensive data sets [which are often based on completely different digital architecture] from multiple organisations.</p>

Scottish Government Response to the Finance and Public Administration Pre-Budget Scrutiny Report on 2025-26 Scottish Budget

Topic	Paragraph	FPAC Recommendation
Digitalisation (continued)	172	<p>The Committee notes that public trust is seen as one of the main contributors to Estonia’s successful digitalisation programme since the 1990s, built through the effectiveness of systems and transparency around how personal data is being used, including at an individual level. As explained in further detail in our separate visit report, Estonian citizens have access to a state portal which sets out clearly how, when and by whom their personal information is accessed and used. We ask the Scottish Government to adopt a similar approach as it develops and introduces more digital and AI systems and processes that deliver public services, ensuring that citizens are able to access and query the use of their personal data.</p>
<p>Public trust is built by information being visible and the public having the means to access it. The Scottish Government has been building trust in public services by undertaking programmes of inclusion work, such as R100, Scottish 4G Infill and Connecting Scotland.</p> <p>Inclusion combined with the Scottish Government’s approach to Open Government and transparency is building public trust in our decisions and use of data, for example: our now mandatory AI Register; our significantly improved response to Freedom of Information requests; our Open Government Action Plan commitments and recent review of our platform for Open Data; and our live CivTech challenge to increase use of quality public participation in decisions, including those around data sharing and AI.</p> <p>The Scottish Government’s digital identity service ScotAccount enables people to sign into online services using two-factor authentication; verify their identity (if required by the service); and save their digital identity securely, for reuse with other public services. Privacy and security are at the heart of ScotAccounts design. Sharing data requires user consent, and users must be present at the time of sharing their data to and from their digital wallet.</p> <p>The Digital Directorate’s approach is exactly what is being requested: a requirement for effectiveness of systems, and transparency around how personal data is being used, including at an individual level.</p> <p>Recent projects driven by the Digital Directorate’s CivTech Programme are producing products and services in this regard: the AI Register, for example, which records all public sector products and services using AI and is publicly available, is a ‘world first’; and a project currently being delivered that will make the sharing of data across organisations with separate legal obligations as seamless and easy to manage as possible, and so maximise public good outcomes.</p> <p>Other projects in development at CivTech include communications systems for citizens, and identity vouching services, all of which will contribute to increased citizen engagement.</p>		

Scottish Government Response to the Finance and Public Administration Pre-Budget Scrutiny Report on 2025-26 Scottish Budget

Topic	Paragraph	FPAC Recommendation
Digitalisation (continued)	173	<p>We heard that meaningful collaboration with the private sector at the early stages of planning and development of digital and AI projects is essential. In Estonia, consultation with the private sector takes place before formal procurement, an approach which ensures both the deliverability of projects, and fairer competition between suppliers. The Committee therefore requests that the Scottish Government considers whether current public procurement processes in Scotland require to be updated, to ensure that the private sector is able and empowered to contribute their expertise to projects at an early stage.</p>
<p>Core to CivTech’s approach is the fundamental understanding that better outcomes arrive through collaboration with the private sector. But the approach goes further than this: truly great outcomes can only come about if there is genuine and deep collaboration across the piece: with not just the private sector, but also all parts of the Scottish Government and public sector, the third sector, and citizens and citizen groups.</p> <p>All CivTech projects engage the private sector from the outset of the project and engages them in shaping the product and service being sought at a fundamental level.</p> <p>In effect, the CivTech procurement does not specify a solution to a need, but rather asks for people to come forward with possibilities – the best of which are then selected. This process enables private sector to contribute their expertise to projects at the earliest possible early stage.</p> <p>CivTech’s procurement process allows for this to happen, and opens opportunities to the widest possible field, including SMEs – where the true heart of innovation often lies. While it is entirely compliant with regulation, as an innovation programme not all of its approach can be translated to all procurements: that said, lessons can be learnt from it, and it should be noted that CivTech works extremely closely with the Procurement Directorate.</p> <p>Furthermore, the Procurement Directorate launched Scotland innovates in 2023, which gives the private sector an opportunity to offer innovative products and services they have developed to the Scottish Government and public sector for consideration.</p> <p>Working with Scotland-IS, we are currently consulting with the private sector to update our model contract terms and conditions around digital purchasing. The draft changes are first targeting data interoperability, but will later extend to terms and conditions for buying AI products.</p>		

Scottish Government Response to the Finance and Public Administration Pre-Budget Scrutiny Report on 2025-26 Scottish Budget

Topic	Paragraph	FPAC Recommendation
Digitalisation (continued)	174	<p>We note the progress with, and examples of, automations and AI in both the Scottish Government’s update and during the evidence we heard. Building on its current approach, the Scottish Government is asked to set out how it plans to maximise digitalisation opportunities to improve productivity in the public sector as well as in the delivery of public services. We further request details of how the Scottish Government assesses and manages risks in relation to the use of AI in the public sector.</p>
<p>Scotland’s AI Register was launched in 2023 and mandated from March 2024. As well as making the use of AI across the public sector more transparent to citizens, the AI Register is wrapped in processes to help manage the risk of specific AI uses.</p> <p>AI has been around for a very long time and at CivTech nearly all products and services it has delivered have had AI componentry for many years.</p> <p>The emergence of Large Language Models [LLMs] and Generative AI has changed the landscape because of their ability to profoundly transform just about every aspect of life.</p> <p>Several CivTech projects have been delivered that directly affect this area: for example, the AI Register, which records all public sector products and services using AI, is publicly available and is a ‘world first’ in this area.</p> <p>Using the Scottish Government’s Digital Directorate’s expertise, officials ensure that at all stages of development of products and services, close attention is paid to safety, risk mitigation, effectiveness and the avoidance of potential dangers.</p>		

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Topic	Paragraph	FPAC Recommendation
Conclusion	175-176	<p>The Committee is deeply concerned about the Scottish Government’s lack of strategic approach to managing Scotland’s public finances. There is little evidence that medium- and long-term financial planning is taking place, and year-on-year budgeting has also become challenging, with significant emergency controls being required in each of the last three years.</p> <p>While we recognise that devolved administrations have fewer flexibilities to deal with ‘shocks’, many of the issues impacting the 2024-25 Budget – such as higher than anticipated pay settlements, the council tax freeze, and increasing social security payments - could have been foreseen and mitigated when the Budget for 2024-25 was set last December. At the very least, scenario plans could have been put in place to allow spending commitments to be ‘flexed’ to adapt to fiscal strain.</p>
<p>The Scottish Government is committed to maintaining public finances on a sustainable trajectory and our three-pillar fiscal strategy sets out how we are ensuring public money is fully focused on delivering government priorities, underpinned by necessary reform and prioritisation to maximise the impact of public spending over the medium to longer term.</p> <p>This Government’s approach to public sector pay in recent years means that people in key public sector roles in Scotland are now paid around 5% more than their counterparts in the UK with the lowest paid earning around 10% more than their counterparts in the UK.</p> <p>When setting our own pay deals for 2024-25 we originally planned on basis of a 2% +1% phased multi-year approach. This was based on a range of judgements including on:</p> <ul style="list-style-type: none"> • affordability based on known funding at the time under the previous UK Government. • stabilising economic conditions, with inflation forecast to be 2% for this year alone; and • a desire to offer long term certainty on pay for public sector workers. <p>The approach of the last UK government which started and suspended spending reviews and regularly moved budget dates, has made financial planning very difficult.</p>		

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Topic	Paragraph	FPAC Recommendation	Government Response
Conclusion (continued)	177	<p>We also believe that if key strategy documents looking beyond the year, such as the Medium-Term Financial Strategy, Infrastructure Investment Plan pipeline reset, Tax Strategy, and multi-year plans, had been published when originally committed to, they would have ensured the Scottish Government was considering the medium to longer term approach as part of its budget planning. Repeated publication delays until after the next fiscal event have unfortunately led to a perception of the Government being in a state of inertia.</p>	<p>The Committee’s disappointment is understood, and it is helpful that it recognises that the initial delays was driven by the appointment of a new First Minister and the UK pre-election period. Had those documents been published, they would have been based on funding projections set by the previous UK Government and would have quickly become out of date.</p> <p>The government acknowledges the vital importance of the MTFS for the Committee’s Pre-Budget scrutiny. In the event of unavoidable delays such as those encountered this year, the government will always engage with the Committee to offer an alternative date or solution. It is the government’s intention to publish an MTFS and Infrastructure Investment Plan pipeline reset after the conclusion of the UK Government’s Spending Review in Spring 2025 and a further update on the publication dates will be offered to the Committee in due course. I can confirm that government’s new Tax Strategy has been published alongside the new 2025-26 Scottish Budget.</p>

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Topic	Paragraph	FPAC Recommendation	Government Response
Conclusion (continued)	178	We note that the UK Government’s plans for only one fiscal event a year and regular UK Spending Reviews provide an opportunity for the Scottish Government to carry out its own Scottish Spending Review (SSR) and adopt multi-year budgets. We urge the Scottish Government to ensure that SRRs are undertaken with the same regularity from late Spring 2025 onward.	The Scottish Government is currently reviewing its options for a Scottish Spending Review (SRRs), including the timing and rhythm for SRRs. I will update Committee further when a decision is made to undertake the next SRR.