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Scottish Government
Riaghaltas na h-Alba

Kenneth Gibson MSP
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The Scottish Parliament
Edinburgh
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16 February 2023

Dear Kenneth,

2024-25 SCOTTISH BUDGET – COMMITTEE BUDGET SCRUTINY REPORT

Thank you for the Committee's 2024-25 Budget Scrutiny Report which was published on 31 January. I am pleased to enclose my response ahead of the Committee's Stage 2 consideration of the Budget Bill.

Annex A includes a detailed response to each of the Committee's recommendations.

I look forward to further discussing these and other issues with the Committee on 20 February.

SHONA ROBISON

Annex A: Scottish Government Response to FPAC 2024-25 Budget Report

INCOME TAX	
Recommendation	**Scottish Government Response**
40. The Committee recognises the uncertainty around potential behavioural changes arising from increased income tax levels. We therefore welcome the analysis being undertaken by HMRC to identify any behavioural trends in labour market participation and intra-UK migration arising from income tax reforms. We look forward to examining how this analysis informs future forecasts and taxation policy.	We closely monitor the impact of tax policy decisions on the wider economy using a range of evidence including: real time economic data, formal evaluations, for example, the Income Tax Evaluation of the 2018-19 reforms, and engagement with stakeholders, including some of those in the business community.
41. We also seek further information on how the Scottish Government is keeping under review the potential impact on business and the economy of the differential income tax policies in Scotland and the rest of the UK.	We recognise the importance of understanding links between tax policy and longer-term economic performance. As the committee note, we have continually worked to expand the evidence base on taxpayer behaviour in Scotland. Recent work with HMRC has focused particularly on labour market participation and cross border mobility of taxpayers, and further information on this research will be published later in the year. This on-going work builds on previous research, including our policy evaluation of the 2018-19 policy reforms. This found that the move to a five-band system, alongside additional government spending as a result of the policy change, had a relatively negligible impact on the size and growth rate of the economy in the short-term. In addition to this analytical work, the Scottish Government routinely listens to feedback from businesses, and we will continue to closely monitor the impact of our tax policy on Scottish businesses through these existing engagement channels in the year ahead.
46. The Committee sees little evidence of either government seeking to avoid or resolve the anomalies arising from the way their tax and national insurance policies align, despite this having a significant impact on taxpayers in certain tax brackets in Scotland. We therefore repeat our calls to both governments to work together to mitigate these anomalies.	We fully recognise the importance of marginal tax rates in the design of the Income Tax system, and how these can impact people’s incentives to work. As the committee note, the high marginal tax rate from both Income Tax and NICs faced by some taxpayers between the Scottish and UK Higher rate thresholds results from incomplete devolution of tax powers. As the Fraser of Allander noted prior to the Budget, for the Scottish Government to address this issue in a revenue neutral way, there would have to be significant increases to the Basic and Intermediate rates.

	We have highlighted this issue to the UK Government on previous occasions, and have sought to engage with them on how it can be resolved.[1] Unfortunately, to date they have been unwilling to substantively engage on this matter. Ultimately, our position is that the full powers of Income Tax and National Insurance Contributions should be devolved to Scotland so that the decisions affecting the people of Scotland are decided by this Parliament. This would allow us to design a more efficient tax system that works for the people of Scotland. With no prospect of that happening at the current time, we continue to call on the UK Government to have regard to interactions and engagement with devolved policy when setting National Insurance Contributions policy.
59. The Committee welcomes the improved earnings growth that Scotland is currently experiencing, which is bolstering income tax revenues to support spending in these challenging financial circumstances. We, however, note the risks highlighted by the SFC and other witnesses regarding the implications for the Scottish Budget should higher earnings growth not materialise from 2025-26 onwards. We therefore seek details of how the Scottish Government is planning to mitigate the risks of significant reconciliations in future years as a result.	Key to delivering long-term fiscal sustainability will be to continue to grow the tax base and deliver on the ambition of our National Strategy for Economic Transformation. As one example of how we are doing this, later in the year we will continue supporting investment that seizes the opportunities of our net zero transition, and work with business and investors to launch a new Green Industrial Strategy. Alongside these efforts to grow the tax base we agree with the committee that there is a need for advanced planning to manage the impact of potential income tax reconciliations. The risks that income tax performance pose to our funding position and fiscal sustainability in the medium term have regularly and clearly been set out in previous Medium Term Financial Strategies. Transparently planning for such scenarios demonstrates our commitment to sound and prudent management of Scotland's public finances.

[1] Scotland's Economy Assurances sought on National Insurance increase - Scotland's Economy (blogs.gov.scot)

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<table>
<tr><td colspan="2">LABOUR MARKET</td></tr>
<tr><td>Recommendation</td><td>Scottish Government Response</td></tr>
<tr><td>60. The Committee seeks further details of the Scottish Government's plans to produce a labour market participation plan. This should include proposals to reduce economic inactivity and set out how the Scottish Government is engaging with business and the further and higher education sectors to ensure the plan addresses current and future skills challenges. We consider this work to be overdue and therefore ask that development of both the plan and its delivery progress at pace.</td><td>Before publishing a detailed plan and to be confident that it addresses the right challenges, we have been undertaking an internal review of the activity across government that already exists to support labour market participation in areas including employability, fair work, health, and childcare. Through this review we identified some key areas to focus our efforts to address the challenges around economic inactivity.

Health and Work
As a result of advice and recommendations to ministers a health and economy workstream was set up to focus on health as the single largest reason for inactivity. Work is progressing at pace in this area with recommendations on how to improve health and work services to be presented to ministers in spring 2024. In the meantime, a number of shorter-term actions are in progress to support employees and employers:
Improvements to Public Health Scotland's Healthy Working Lives (HWL) online portal.
Working Health Services Scotland (WHSS) and HWL to unify branding and increase awareness.
Review of WHSS service model to improve national consistency and move towards more standardised local delivery.
Exploratory work with GCPH on whole-system approach to tackling health/inactivity.
Employer Engagement
Officials in Scottish Government's Director General Economy completed 7 engagement sessions, in line with recommendations from the New Deal for Business Group, to engage early with businesses on labour market participation. These sessions covered Health and Work, and Flexible Working. Participants involved in these sessions included Business organisations, sector representatives, enterprise agencies and employers.
Findings from these sessions are feeding into:
the ongoing policy work in relation to health & work as outlined (led by the Health portfolio); and</td></tr>
</table>

	• An improved offer of flexible working support (led by the Fair Work Division). **Flexible Working** An evidence-based review of the current flexible working policy offer identified some areas for improvement. Officials are currently considering options for any further support for flexible working in 2024-25 using the feedback from the employer engagement sessions as outlined **Cross-government work** Employability, Fair Work, skills, health, childcare, transport, and other enablers are all necessary to help people into work, but none are individually sufficient. Labour market participation must be given consideration when developing policy in the wider foundations such as childcare, education, transport, housing, and others. Officials in DG Economy are continuing to engage with other portfolios across the Scottish Government to ensure that labour market participation is prioritised when developing and implementing policy.
61. The Committee is concerned at the evidence we heard regarding the unreliability of the ONS Labour Force Survey and a lack of data at devolved nation level, due to reduced sample size. Without accurate data, governments are limited in their ability to put in place effective policy interventions to address labour market participation and economic inactivity. We therefore ask the Scottish Government what steps it is taking to encourage improvements in this area and how it will assure itself that the new survey being trialled is reliable.	**ONS Labour Force Survey** The Scottish Government shares the Committee's concerns about the reliability of the ONS Labour Force Survey (LFS), and has proactively engaged with and supported ONS's efforts to improve data quality. ONS reintroduced reweighted LFS estimates for Scotland as part of their monthly publication of labour market statistics on 13 February 2024. These replaced the adjusted experimental estimates that had been published since October 2023 for the UK and November 2023 for Scotland. The LFS estimates will be badged as "official statistics in development" until further review due to the ongoing challenges with response rates. Due to increased volatility seen in the recent ONS Labour Force Survey estimates resulting from smaller achieved sample sizes, estimates of quarterly change should be treated with additional caution. ONS recommend that these be viewed alongside the wider suite of labour market indicators such as Claimant Count data and HMRC Pay As You Earn Real Time Information (PAYE RTI) estimates. ONS advise that they expect the variability of estimates to reduce over time as sample sizes increase.

	In the longer term, ONS intend to improve the quality of labour market data in Scotland and the UK through the Transformed Labour Force Survey (TLFS). ONS's transformation of the LFS includes moving to an 'on-line first' approach to survey completion, supported by telephone collection and 'knock to nudge' approaches, to ensure they reach the widest possible pool of people. ONS anticipate that these improvements will substantially increase the number of those who complete the survey and make it more representative of the population as a whole. ONS have been developing and running a transformed version of the LFS over the last few years. The data is being analysed and assessed for quality and ONS will continue with this analysis in order to make an informed decision for when they will transition from the LFS to the TLFS. ONS currently expect that the TLFS will become the main source of labour market information from September 2024. Scottish Government officials have engaged closely with ONS through the development of the TLFS to represent Scottish user needs. Officials participate in ONS's steering group, supporting the development of the TLFS which includes examining data quality and representing Scottish user needs. Officials have met regularly with ONS through this forum, and will continue to engage with ONS in the coming months.

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NON-DOMESTIC RATES	
Recommendation	**Scottish Government Response**
68. The Deputy First Minister informed the Committee that "had money been available in a way that did not lead to our having to make hard choices in relation to providing NDR relief and funding the health service, I would have wanted to do more for hospitality, given … challenges for the sector in the post-Covid environment". The Committee notes concerns raised in evidence that the Barnett consequentials relating to retail, hospitality and leisure businesses in England were not passed on to Scottish businesses in full. **69.** The Committee notes concerns raised in evidence that the Barnett consequentials relating to retail, hospitality and leisure businesses in England were not passed on to Scottish businesses in full. We welcome the Scottish Government's plans to gather evidence on how the relief it has introduced for islands hospitality businesses is making a difference. We seek further details of how it will use this evidence to inform future decisions relating to support for the sector.	While Scottish Ministers are sympathetic to calls for the consequentials of the English relief to be passed on in full to Scottish businesses, this would have meant that the Scottish Government could not provide the NHS, schools, or emergency services with the funding they require. This situation results from a "worst case scenario" UK Government Autumn Statement, which failed to provide the investment needed in services and infrastructure, reflecting the UK's economic circumstances after Brexit. The Scottish Government will continue to do all it can to support businesses. In 2024-25, the Basic Property Rate for non-domestic properties with a rateable value up to and including £51,000 will be frozen, delivering the lowest such rate in the UK for the sixth year in a row. The Budget also announced a package of reliefs in 2024-25 worth an estimated £685 million. This includes the Small Business Bonus Scheme which offers up to 100% relief from non-domestic rates and is the most generous scheme of its kind in the UK, as well as a new 100% rates relief which will be available in 2024-25 for hospitality businesses in island communities, capped at £110,000 per ratepayer. This relief will additionally be extended to eligible hospitality premises in prescribed areas in three locations - Knoydart, Scoraig, and Cape Wrath. This recognises the unique circumstances of these areas which are not connected to a main road network and are only accessible by boat or on foot. Barnett consequentials received as a result of the Autumn Statement are a vital part of Scottish Government's overall funding position. They have been allocated in full following the considerations ahead of the Scottish Budget. The Scottish Government is committed to ensuring that engagement with the New Deal for Business Non-Domestic Rates sub-group continues to explore how the non-domestic rates system can best support business growth, investment and competitiveness, while acknowledging the important role income from non-domestic rates plays in funding public services.

Annex A: Scottish Government Response to FPAC 2024-25 Budget Report

COUNCIL TAX	
Recommendation	**Scottish Government Response**
77. The Committee notes that the Scottish Government's decision to freeze council tax for 2024-25 does not expressly target those in poverty. We therefore question how the policy aligns with the Scottish Government's plans to prioritise spending on areas that deliver its three Missions.	The Scottish Government believes that, at a time when rising prices are putting significant strain on household finances, a Council Tax freeze will give some certainty to households over the coming year. Although inflation is slowly falling, the damage caused by the UK Government's economic agenda of austerity and Brexit has hurt everyone - particularly our most vulnerable households. Should Councils agree, over 2 million Council Tax payers will benefit in 2024-25, providing much needed financial relief to households. As shown in the Distributional Analysis to accompany the 2024-25 Scottish Budget, as a proportion of income, those in the lowest income 10% of households will benefit the most from the Council Tax Freeze. This is because council tax represents a larger proportion of their income than those who are better off. This is on top of the Council Tax Reduction (CTR) scheme, which supports those that cannot be expected to afford Council Tax.
78. The Committee seeks an update on progress with undertaking fundamental reform of council tax to ensure fairness and develop a sustainable funding model for local authorities	Whilst there is no political consensus on reforms to council tax, the Scottish Government remains committed to developing fairer, more inclusive and fiscally sustainable forms of local taxation and to re-energise our work to that end. We have convened a Joint Working Group with COSLA on sources of local government funding, which is exploring a range of potential measures, including approaches to longer-term reform of Council Tax. It is important that we explore these proposals for meaningful changes in partnership with local government.

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TAX ADVISORY GROUP	
Recommendation	**Scottish Government Response**
85. The Committee seeks clarity regarding the Deputy First Minister's comments that the Tax Advisory Group was never intended to provide input to each budget, when previous Scottish Government announcements were clear that the outcomes from this work would feed into the Scottish Budget 2024-25. **86.** We also request an update on the TAG's work and confirmation that the new Strategy for Taxation is on course to be published in May 2024 as planned, particularly given our previous recommendation that "it is imperative that this work progresses at pace".	The role of TAG is not to advise on individual tax decisions at Budget – those decisions will always be taken solely by Ministers. Members of TAG are not consulted on these; they remain completely independent of Government. However, what is important is for Ministers to continue to listen to a variety of views from a range of experts in this field. TAG has met 4 times to date and is due to meet again in May 2024. Members bring a significant breadth of expertise from a range of different backgrounds. The purpose of the group is to help inform our overarching approach and the long-term strategic direction of the tax system in Scotland. The group's terms of reference and minutes will be published on scot.gov shortly. The tax strategy is progressing as planned and a draft strategy will be published alongside the MTFS. This will be open for public consultation to allow this important work to be informed by as wide a range of views as possible.
SOCIAL SECURITY	
Recommendation	**Scottish Government Response**
95. The Committee asks 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, particularly in light of the demographic challenges highlighted by the Scottish Fiscal Commission in its 2023 Fiscal Sustainability Report.	We are fully funding social security to ensure the system can deliver a service based on dignity and respect. Social Security is an investment in the people of Scotland and provides clear value for money for the public purse. It prioritises tackling child poverty, creating a fairer Scotland and delivering services and support that tackle the roots of inequality. Where the Scottish Government introduces new benefits, makes changes to existing benefits or where there is a variance between actual and forecast expenditure or the Block Grant Adjustment, the Scottish Government will ensure that there is budget cover within the overall Scottish Budget envelope. The Scottish Government will continue to take a responsible and capable approach to Scotland's finances as new budget pressures emerge. This includes monitoring all areas of expenditure during the year, prioritising spend and maximising efficiencies.

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<table>
<tr><th colspan="2">ECONOMIC GROWTH</th></tr>
<tr><th>Recommendation</th><th>Scottish Government Response</th></tr>
<tr><td>102. The Committee is unclear, in light of spending cuts to further and higher education, enterprise agencies and employability, how the Scottish Government has, as intended, prioritised its spending towards supporting the delivery of a fair green and growing economy.</td><td>While faced with one of the most difficult financial settlements since devolution, we are making the most of every resource available in the Scottish Budget 2024-2025 to continue to grow and transform the economy through investment of more than £5 billion across government. Spending is targeted at measures that will support our long-term ambitions for a wellbeing economy that is fair, green and growing:

• We are kick-starting our commitment of up to £500m to anchor our offshore wind supply-chain in Scotland with an investment of £67m in 2024-25. We are increasing investment in digital connectivity by more than 50% to £140m, supporting Scotland’s businesses to grow and connecting over 114,000 homes and businesses through the R100 broadband programme.
• We will expand our Techscaler programme and prioritise the implementation of the ‘Pathways’ report, which aims to help more women to start and scale businesses.

Employability has a key role to play across all three missions set out by the First Minister, with our activity contributing to tackling poverty by supporting people to increase their income from employment; supporting the delivery of a wellbeing economy recognising the need to support people into fair and sustainable work; and delivering more effective public services by setting the expectation that employability support actively engages with the broader range of public service provision individuals may need to move towards, and into, employment.

In a challenging financial context, savings decisions related to employability have been necessary. However, these decisions have been taken with the primary aim of protecting front line provision through Local Employability Partnership funding, with a view to protect levels of investment at 2023-24 levels. The Scottish Budget also commits to exploring future multi-annual funding for employability services, in recognition of the benefits of greater certainty for those planning services and the people accessing support.</td></tr>
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	We remain committed to supporting a high quality Post-School education, research and skills system with over £2.4 billion investment. This will maintain Scotland's reputation for world-leading research; provide opportunities for people to learn and develop their skills through further and higher education and apprenticeships – honouring this government's commitment to free tuition. It will also provide vital financial support to students to support them in completing their studies in the face of significant cost of living pressures. I have prioritised funding to continue to support high-quality research and innovation across Scotland, increasing the investment in HE capital (which includes funding for research) to over £350m in the 2024-25 budget. We have also taken other action to support Scotland's universities, such as announcing this month that we will be allocating £5.8m of consequential funding arising from the Regional Innovation Fund in England to university research and innovation in Scotland for Academic Year 23-24. The Scottish Government remains committed to research which sits at the heart of a number of our key policies and strategies, such as NSET and the National Innovation Strategy. Scotland's world class university research, and its key outputs of new knowledge and insights, are fundamental to green economic recovery and growth. In recognition of their role in supporting economic recovery and growth, we have prioritised funding for the enterprise agencies to the extent possible given the extremely challenging settlement. The enterprise agencies are key to helping us deliver the Scottish Government's three missions, including a fair, green and growing economy. The funding we have made available to the agencies will support their work to create of jobs and business growth, both of which are fundamental to our efforts to tackle poverty and generate investment required to improve our public services. The Budget allocates over £307m for the enterprise agencies in 2024-25.

ECONOMIC GROWTH (cont)

Recommendation	Scottish Government Response
103. The Committee also notes from the Deputy First Minister's evidence that bodies, such as enterprise agencies, will be expected to focus their efforts on key priorities. We therefore seek further details of how the Scottish Government is assessing the impact on economic growth of the withdrawal of some of their services and support.	Our enterprise agencies make a key contribution to achieving the Government's objectives through their support for businesses and communities and strategic economic development. They are committed to making the best use of the skills and expertise of their staff and working closely with partners to maximise available funding and respond to emerging opportunities and challenges. The Cabinet Secretary for Wellbeing Economy, Net Zero and Energy will continue to work closely with each of the enterprise agencies on the implications of the budget. The First Minister launched Scottish Enterprise's new strategic direction document (Our Focus on Economic Transformation) on 15 January 2024. This sets out a more focused role and set of mission-based priorities for the agency. By supporting targeted areas with the greatest potential impact, Scottish Enterprise aims to unlock thousands of new jobs and billions of pounds of global growth opportunities to deliver a more successful, greener and fair economy. Its new approach will focus resource on delivery of three missions: developing and enabling an energy transition; scaling innovation and entrepreneurship; and increasing productivity through capital investment in facilities and equipment. SE estimates that over the next five years, this targeted focus could support around 18,000 to 21,500 net additional jobs (creating a multiplier effect on the economy) and generate £380 million - £455 million in Scottish income tax.
112. We also seek further information from the Scottish Government on the steps it is taking to use the limited capital spend it has in a strategic way that levers in private investment, as highlighted by the Deputy First Minister in evidence, and how it will measure success in this area. **123**. The Committee recognises that overall reductions to the Government's capital budget impacts on its ability to target funds towards achieving net zero. We seek further details of how it is mitigating these challenges, including attracting private investment, to make greater progress towards delivering a fair, green and growing economy.	Against a backdrop of extremely challenging financial pressures, we have prioritised funding for the Scottish National Investment Bank. It is operationally independent and invests commercially in line with its missions. Since its launch in November 2020, the Bank has now committed £508.2 million across 31 investments. The Bank's investments have also helped drive in over £800m of third-party co-investment. More than half of the Bank's investment portfolio contributed to the shift to a net zero economy The budget also saw funding allocated to support Scottish Enterprise investment activity, which provides loan and equity finance to support the growth ambitions of young, innovative SMEs, investing alongside private sector capital and could crowd-in up to £60m in private sector investment during 2024-25.

	In addition to prioritising these budget allocations, we are also responding to the far-reaching recommendations from the First Minister's Investor Panel. As outlined in the Scottish Government response, we are actively implementing these recommendations with the aim of increasing the amount of mobile capital investment that flows to Scotland.

AFFORDABLE HOUSING	
Recommendation	**Scottish Government Response**
118. The Committee draws the Scottish Government's attention to the significant concerns expressed by witnesses regarding its decision to cut the affordable housing budget in view of reductions to available capital. We seek further information on the impact of this decision on its target to build 110,000 homes by 2032. **119**. We also ask the Scottish Government to demonstrate how this decision aligns with its own spending prioritisation criteria and whether it has fully assessed the potential impact on tackling poverty and growth.	10% real terms cut in our capital budget, alongside challenges caused by Brexit and economic mismanagement by the UK Government have triggered various issues including rising construction costs and workforce challenges. All this means that we cannot deliver on all our capital projects. One of the most difficult choices we have taken is to reduce the funding for our Affordable Housing Supply Programme. We will invest £556 million in affordable housing next year and continue to work with partners to increase the delivery of more affordable homes, the majority of which will be for social rent, including supporting acquisitions of existing properties. We remain focused on delivering 110,000 affordable homes by 2032 and to support that we will bring forward the review scheduled for 2026-27 to 2024, which will concentrate on deliverability. And, in parallel, we will accelerate work with the financial community in Scotland and elsewhere to boost private sector investment in Scotland year on year. As I stated during my evidence session at the Finance and Public Audit Committee on 16 January 2024, if the availability of capital funding changes in the coming weeks and months, housing would be the key priority for that additional capital.

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INFRASTRUCTURE PROJECT PIPELINE & INFRASTRUCTURE INVESTMENT PLAN	
Recommendation	**Scottish Government Response**
127. The Committee is not convinced of the need to wait until after the UK Spring Budget before publishing the updated infrastructure project pipeline. Regardless, the Scottish Government should have been upfront about the delay and the reasons behind it. **128.** We seek publication of the updated project pipeline and Infrastructure Investment Plan by Easter 2024.	The updated project pipeline is dependent on the multi-year capital allocations, which in turn are dependent, to some extent, on the Scottish Government capital allocation to be set out in the UK Spring Budget. The UK Government failed to inflation proof their Capital Budget, resulting in a nearly 10% real-terms cut in our forecast capital funding over the next 5 years, significantly impacting our ability to deliver on our capital commitments. Consequently, the work announced in the MTFS 2023 to update the pipeline of projects and programmes relating to the 2021 Infrastructure Investment Plan to ensure it is affordable and deliverable and provides best value for money is taking longer, than originally foreseen. The updated pipeline is intended to be published alongside the next MTFS as it is right that future investment plans are embedded in wider thinking on fiscal sustainability. The 2023 MTFS committed to extending the current IIP period by one year, to 2026-27. This will ensure spending is aligned to the three missions for this Parliament and that it takes account of the fiscal and economic reality at the time. Work with stakeholders and colleagues is ongoing to develop the next IIP, which will be published in due course.
SCOTWIND & STRATEGIC FINANCIAL PLANNING	
Recommendation	**Scottish Government Response**
132. The Committee seeks further information regarding the strategic parameters of the fiscal rules applied to ScotWind. The Committee is attracted by the concept of funding generated from sources such as ScotWind being placed in an investment fund for future generations. While we understand the challenges facing the Scottish Government in meeting day-to-day financial pressures, this is a question of long-term strategic financial planning. We, therefore, ask that the Scottish Government considers these suggestions for future leasing rounds.	Budgeting rules mean that Crown Estate Revenues (including those arising from Scotwind options) can be deployed flexibly by Scottish Ministers. The scale of the current financial challenge means that the Scottish Government has chosen to use the initial Scotwind revenues to support wider public services, including activities that will have a positive impact on our climate change goals. Consideration will be given to how future revenues will be deployed.

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Multi-year spend and medium-long term planning	
Recommendation	**Scottish Government Response**
137. The Committee notes that the Scottish Government only receives funding for one year. Nevertheless, we agree with the Scottish Fiscal Commission that the Scottish Government should set out multi-year spending plans to support planning and scrutiny. Despite the uncertainties ahead, we believe that it was possible for the Scottish Government to provide some indicative figures for future years alongside the Scottish Budget 2024-25 as intended.	As I stated in my response to FPAC's pre-budget scrutiny report, the disappointing settlement at the Autumn Statement delivered a real terms reduction to the block grant. We are prioritising spending towards the Government's core missions and making difficult choices to ensure the public finances remain on a sustainable trajectory. It is important that we properly work through the impacts of these choices and the impact of our ongoing public service reform programme as part of our multi-year planning.
138. We seek assurances and certainty that it will publish multi-year spending plans with the next Medium-Term Financial Strategy in May 2024. **141.** The Committee remains concerned that the Scottish Government still appears to be primarily occupied with resolving immediate funding issues, with little focus on medium to long-term planning.	While we recognise the merit of multi-year budgets, the nature of the Autumn Statement and the OBR forecasts makes future prospects more volatile and increases the risk that multi-year allocations could need to be reset with a frequency that would undermine their credibility. We will revisit the multi-year outlook for our next Medium-Term Financial Strategy, due for publication in Spring 2024.
142. We are also disappointed that the Scottish Government did not respond to our strong recommendation that it produces a full response to the Scottish Fiscal Commission's Fiscal Sustainability Report. This was a missed opportunity to demonstrate a long-term planning approach and to start to address the significant challenges ahead.	The Scottish Government welcomed the publication of the SFC's report on fiscal sustainability. Their independent analysis makes a positive contribution to the understanding of the longer-term fiscal position and challenges ahead. Our Medium Term Financial Strategy sets out how the Scottish Government intends to deliver sustainable public finances and respond to the risks ahead, including those presented by longer term trends such as demographic change. The Government intends to update its Medium Term Financial Strategy in Spring, following the UK Spring Statement.
143. We note the assurances from the Deputy First Minister that she will provide a "longer-term plan" after the UK Spring Budget. We restate our expectation that this includes a full response to the significant future challenges set out in the SFC's report.	Scotland lacks a full range of levers to deal with these longer-term challenges in the way that other countries can, in particular migration. As we noted in our response to the SFC report, the Scottish Government's funding settlement is largely dependent on the UK Government and their spending decisions. Annual financial settlements will continue to curtail the Scottish Government's ability to undertake long-term planning.
144. We also request an update on when the Scottish Government will seek to schedule a parliamentary debate on this important report, as committed to in its response to our Pre-Budget 2024-25 Report.	The Scottish Government continues to support a debate in Parliament on the long-term sustainability of Scotland's finances as confirmed by the Deputy First Minister in her appearance at the Finance and Public Administration Committee on 3 October 2023.

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TRANSPARENCY	
Recommendation	**Scottish Government Response**
147. The Committee welcomes the engagement we have had with the Scottish Government to date on enhancing the transparency of budgetary information and we look forward to continuing our discussions on additional improvements that can be made. **148**. We ask that in future years the comparison of its spending plans with the latest estimates or outturns from the previous year's spend is published alongside the Scottish Budget, to support transparency and maximise opportunities for scrutiny.	The Scottish Government will continue to seek to improve the transparency of the budget information provided. Additional comparator information (for the 2024-25 Budget) was provided (on 31 Jan). That included the detail requested by the Committee and action will be taken to provide that information earlier in the process in future years.
152. The Committee welcomes the new SFC analysis of data by Classification of the Functions of Government, which we consider enhances transparency in the comparison of key areas of spending over time.	The Scottish Government has made its own analysis of spending by COFOG available alongside the initial Budget publication (recognising that this information is again (to date) shown against opening budget position for comparator years).
153. We ask the Scottish Government to consider how it can share additional spending data and resolve the technical difficulties identified to enable the SFC to further develop this analysis. We would also be keen to see the analysis published at an earlier stage in the budget process to enable greater opportunities for committee scrutiny	The Scottish Government recognises the challenges that differing presentations of data present and is committed to trying to resolve inconsistencies in that data and enhancing the read across between alternative analysis of budget information. Information will be made available as early as possible in the budget process.
161. We further ask the Scottish Government to consider how it can resolve inconsistencies in the presentation of budgetary information and provide greater clarity to organisations at an earlier stage about the level of funding they will receive. We would in particular like to see consistency in relation to how public private partnership payments are set out in the budget.	The Scottish Government will consider will consider how information in relation to Public Private Partnerships are set out in the budget. Scottish Government Officials would like to engage with FPAC to better understand its requirements.

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MISSIONS AND OUTCOMES	
Recommendation	**Scottish Government Response**
160. The Scottish Government has said that its taxation and spending plans have been prioritised to deliver its three Missions of Equality, Opportunity and Community. However, the Committee is unclear from the information provided that a rounded strategic approach has been taken to assess and prioritise those areas of spend that will make most impact in delivering these Missions. In future years, it would be helpful to see a more detailed explanation of the Scottish Government's assessment of spend against its overall priorities, along with the trade-offs it has had to make	In April 2023 the Scottish Government published New leadership – A fresh start. This policy prospectus set three critical and interdependent missions that will guide decision making for the remainder of this parliamentary term: Equality - tackling poverty and protecting people from harm; Opportunity - a fair, green and growing economy; Community - prioritising our public services. These missions are the defining focus of the Scottish Government and they are underpinned by a series of tangible outcomes which each Cabinet Secretary has committed to deliver by 2026. These missions were central to the decision making underpinning the Medium Term Financial Strategy in May 2023 and the priorities as set out in the Programme for Government 2023-24. The impact of spending decisions against the delivery of the three missions was a core consideration when finalising portfolio budgets in the autumn.
171. The Committee believes that the forthcoming statutory review of the national outcomes is an important opportunity to turn the ambitions of the National Performance Framework into action, including ensuring that the outcomes drive spending decisions.	The National Performance Framework is Scotland's wellbeing framework, which sets out the kind of Scotland we want to live in. It provides a framework for collaboration and planning of policy and services. The statutory document for the Review of National Outcomes will be laid in Parliament this Spring. An implementation plan for making further progress with the NPF will be developed following the Review of National Outcomes.
172. The Committee is interested in how the Scottish Government's redesign of its approach to internal performance reporting will support the measurement of progress against delivery of the national outcomes, as suggested. We therefore seek further details of this work, including a timeline for when the agreed approach will be implemented.	The Scottish Government's internal performance reporting will include regular reporting on the three Missions, which are set out in the Policy Prospectus, and each Cabinet Secretary's priorities detailed within the associated Mandate Letters. Alongside the Review of National Outcomes – which will be laid before Parliament in the spring - we are considering how to measure our contribution to the delivery of the National Outcomes.

TAXONOMY	
Recommendation	**Scottish Government Response**
166. The Committee welcomes the publication of taxonomy information for both resource and capital this year and notes that this aims to set a provisional baseline from which to learn. We ask the Scottish Government to consider how it can continue to develop this data in future to enable year-on-year comparisons and to better support scrutiny of the impact of budget decisions on climate change	While the taxonomy published alongside the 2024-25 budget establishes a baseline from which future years are to be measured, previous years budgets are now included in our detailed taxonomy tables. Comparisons to previous years will be incorporated into the Annex report for future years, highlighting where climate relevant budgets have changed and any differences to the overall levels of positive, neutral or negative spend. The Scottish Government is exploring where improvements may be made to the climate taxonomy and to support scrutiny of climate spend, both through linking to the Climate Change Plan when it is published but also to other climate publications such as the Scottish National Adaptation Plan. The Scottish Government aims to build on processes, such as the Net Zero Assessment, to improve the scrutiny of the budget in terms of where it contributes to delivering action on climate. These processes are in their early stages and this will be an iterative process.

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PUBLIC SERVICE REFORM	
Recommendation	**Scottish Government Response**
184. The Committee previously expressed concerns that the focus of the Scottish Government's public service reform programme has, since May 2022, changed multiple times, as have the timescales for publishing further detail on what the programme will entail. **185.** The Scottish Government's update provides welcome principles and objectives for the reform programme, including recognising the importance of prioritising preventative spend, an area that the Committee has supported for some time.	My previous letter to the Committee set out a full update on public sector reform, setting out what we want to achieve, the characteristics of a reformed system and the programme approach that is currently being built across government. I welcome the Committee's support for the principals and objectives set out, and our work on the prioritisation of prevention.
186. There are however few other signs of progress. This is disappointing given the urgent need for reform.	The update to the Committee set out how we have brought together longer-term work on reform and financial sustainability with important work on efficiency, effectiveness and cost reduction, to provide a coherent programme of reform addressing the immediate budgetary challenge while setting the platform to drive reform. In my update I set out considerable work across government to deliver reform, as well as future actions.
187. Without a coherent reform programme in place, we are concerned that financial pressures will drive a series of uncoordinated cuts across the board, rather than genuine reform aimed at enhancing the delivery of public services. Indeed, we note that one portfolio in the Scottish Budget refers to "a 5% efficiency saving that has been taken across all public bodies as part of public service reform". This is not referred to more widely in the Scottish Budget or in the reform update we received on the same day. We therefore seek clarity on this matter along with details of how this approach aligns with the Scottish Government's aim to prioritise public services.	To be clear there is not a 5% cut across all public bodies. Portfolios have made decisions about allocations to public bodies based on portfolio budget pressures and service needs. My update to the Committee sets out the principles we will adopt when considering how savings will be realised.
188. The Committee also seeks assurances from the Scottish Government that it will revisit and implement the recommendations from our Pre-Budget 2024-25 Report aimed at bringing much needed impetus, focus and direction to its public service reform programme. **189**. This includes publishing the accompanying financial strategy to the reform programme, as requested by the Committee, and committed to by the former Deputy First Minister in March 2023. We do not agree with the Deputy First Minister's explanation that it could not be provided until after the UK Spring Budget.	I welcome the Committee's recommendations, as I welcome all contributions as we seek to deliver reform right across public services. My update to the Committee set out how we have addressed these recommendations to date and will continue to use these recommendations to inform our approach. The financial strategy referred to in the former Deputy First Minister's letter to the Scottish Fiscal Commission refers to the health and social care medium term financial framework (HSC MTFF) which specifically considers the overarching financial context across health and social care*:*

	"We will continue to work with partners across health and social care to understand and address financial pressures. Our programme of reform will be accompanied by a clear financial strategy, taking account of significant changes, available resources and expected cost pressures including demographic changes, technological advances and inflation, as well as considering necessary mitigations." The current HSC MTFF provides projections to 2023-24. The updated position noted in the letter to the Commission will be published this spring. As noted in my evidence, the Scottish Government Medium Term Financial Strategy (MTFS), which considers both funding and spending outlooks and is due to be published in May 2024 will allow for that longer view.
190. We would also like to see greater progress with digitalisation, shared services and rationalisation of estates, along with a presumption against the creation of any new public bodies until an evaluation of the size and structure of the public body landscape is completed	Work is in hand to deliver those key efficiency measures (digitalisation, shared services, and estates). As agreed by Cabinet last year there is a presumption against the creation of any new public body. This does not prevent a body being created but it should be an action of last resort and must be supported by a robust business plan.

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PAY AND WORKFORCE	
Recommendation	**Scottish Government Response**
198. The Committee is disappointed with the delay in producing the Scottish Government's public sector pay policy for 2024-25. Given the significant and rising public sector pay bill and its effect on the Scottish Budget, publishing the policy alongside the Budget as usual would have provided much needed clarity and certainty.	The UK Spring Statement planned for 6 March 2024 will provide an update on the fiscal outlook and reflect changes to tax and public spending policy. This will impact the devolved funding envelope and allow pay metrics to be set in the fullest knowledge of the Scottish Governments funding position. Combined with our view that the inflationary outlook could improve, this created compelling arguments for delaying setting pay metrics to after the UK Spring Statement. Given funding and inflationary factors we intend to set out the pay metrics for 2024-25 after this fiscal event.
199. We also consider that the Scottish Fiscal Commission should be able to complete its Forecasts unimpeded, with timely access to all the data it requires to do so. The Committee therefore seeks the Scottish Government's commitment that it will provide this data to the SFC on time in future and publish future pay policies with its December budgets.	There is an established protocol between Scottish Government and the SFC about how we work together during fiscal events, including the Scottish Budget, and in previous years pay officials have consistently and respectfully worked within the bounds of those protocols. The UK Government's Autumn Statement was the worst-case scenario for Scotland and caused further uncertainty about future funding for public service from UK Government. With the public sector paybill costing around £25 billion in 2023-24, pay awards play a significant role in determining the fiscal sustainability of our budget. As a result of this challenge, we unfortunately could not provide a settled 2024-25 pay policy position for the Scottish Fiscal Commission in line with the agreed timescales. We will continue to engage and work collaboratively with the SFC on matters related to public sector pay and workforce and strive to provide timely information related to pay in the lead up to future fiscal events including the Medium-Term Financial Strategy.

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Recommendation	Scottish Government Response
200. We also request clarification that this year's pay policy 2024-25 will be published as early as possible after the UK Spring Budget and that it will include clarification of the Scottish Government's plans for reducing the public sector workforce to more sustainable levels	Our public sector workforce will need to change size and shape – but that will be done in partnership with trade unions and will be based on current and future priorities. Our financial position necessitates that we will need to look at reforms in the way that public bodies deliver services. The progress on workforce will keep pace with delivery plans on public service reform as far as is possible, given it is a vital component of that. It also needs to be done collaboratively, underpinned by a whole system approach. The strategic approach to workforce will be underpinned by our continued commitment to the policy of no compulsory redundancy.