Finance and Public Administration Committee

Scotland’s public finances 2023-24: summary of evidence

Introduction

This paper summarises the evidence received by the Finance and Public Administration Committee (FPAC) in response to its pre-Budget 2023-24 call for views carried out over the summer.

Pre-Budget scrutiny aims to:

- influence how the Budget is prepared,
- improve transparency and increase public awareness of the Budget,
- consider how the Scottish Government’s Budget should respond to new fiscal and wider policy challenges,
- lead to better results and outcomes when compared against the Scottish Government’s targets and goals.

The Committee was interested in hearing views on three key areas arising out the Scottish Government’s multi-year Resource Spending Review (RSR) published in May, and focused questions on three areas from the spending review:

- proposals for public service reform,
- impact of the cost of living crisis on the Scottish Budget 2023-24, and
- how spending priorities might affect the delivery of national outcomes.

The specific questions asked by the Committee were as follows:

1. The Scottish Government’s Resource Spending Review assumes that the current taxation policies are maintained while funding for health and social care and social security is prioritised. Are these the right priorities and approach for the Scottish Budget 2023-24 and until 2026-27?

2. The Scottish Fiscal Commission (SFC) notes that Scottish income taxes have grown more slowly than the rest of the UK and is forecasting Scottish taxes to be around £360 million less in 2023-24 than they would be without income tax devolution. The SFC is also forecasting that, as a result of forecast error, the

Scottish Budget in 2023-24 could be £221 million lower. How should the Scottish Government's Budget 2023-24 respond to this challenge?

3. How should the Scottish Government respond to inflationary pressures and the cost of living crisis in its Budget 2023-24?

4. The Spending Review identifies key areas of reform over the lifetime of the Parliament to support its priorities in the Spending Review, including delivering efficiency savings across the public sector. How should the Scottish Government approach each of these areas to achieve efficiencies while also maintaining effective public services?

   - digitalisation
   - maximising revenue through public sector innovation
   - reform of the public sector estate
   - reform of the public body landscape
   - improving public procurement

5. How effective do you think these reforms will be in delivering efficiency savings in the Scottish Budget 2023-24, and beyond? If you have additional or alternative priorities for achieving efficiencies (for example within your public sector area), please provide details.

6. What impact will the Spending Review priorities have on the delivery of national outcomes in the National Performance Framework?

7. How should the Scottish Government target spending in its budget to achieve net zero targets?

8. How has the Scottish Government reflected its commitment to fiscal transparency in the Spending Review and how can it best ensure that spending in the Budget 2023-24 can be properly identified and tracked?

The call for views was issued on 24 June and closed on 19 August. 44 responses were received, and can be found in full on the FPAC website. This paper summarises some of the key points made. Not all the responses answered the questions directly, so this summary is presented by theme.

The Committee issued this call for views at the start of the summer, and much has changed since. Rising inflation, in particular in energy costs, has resulted in large-scale interventions from the Scottish and UK Governments.

The Scottish Government has negotiated improved pay-deals for public sector workers, and undertaken an initial review of 2022-23 budget allocations to fund these deals and mitigate cost of living crisis impacts. The new UK Prime Minister has also announced details of an energy cap for individuals and businesses.

As such, some of the issues raised around cost of living have moved on from when this consultation closed on 19 August.

Priorities for the Resource spending review

There was general support for the budgetary priorities identified in the RSR of Health and Social Care.

Professor David Heald, however, was of the view that the "chosen priorities are inappropriate."

> "Super-parity in devolved social security is diverting the use of Barnett consequentials away from core public services. My view is that 'flat nominal' spend for many programmes over a five-year period is implausible, particularly given the present level of cost inflation. Moreover, tackling endemic problems of inequality and poverty should be addressed, not generally by higher than rUK benefits, but by enhanced economic performance. The 2010s UK austerity did less damage to the capacity of Scottish public sector organisations, particularly local government, than occurred in England. If achieved, flat nominal would remove that Scottish advantage."

The submission from COSLA/SOLACE/CIPFA argues that by prioritising health and social security it is not clear how this aligns with the four overarching policy priorities set out in the RSR (tackling child poverty; addressing the climate crisis; strengthening the public sector following the pandemic; and growing a stronger, fairer and greener economy) - "the choice appears to have been made with no evaluation of the impact it will have on other areas."

The submission by the Scottish Council for Development and Industry (SCDI) notes that funding which most directly impacts on national and local economic development and business growth "has been afforded a lower priority in the Resource Spending Review." Adding that "this is a concern as there will undoubtedly be a greater need to help sustain economic activity in the [Bank of England forecasted] recession, and support recovery and expansion (which will increase the funding available for public services) over the next years."

Audit Scotland, however, point out that experts like the Institute for Fiscal Studies and the Fraser of Allander note that even with increases in their allocations, health spending remains tight.

> "Inflationary pressures on drugs budgets and pay costs, which are a significant proportion of health spend, pose challenges, alongside existing financial sustainability issues, which have been shored up by Covid-19 spending over the past two years."

Similarly with social security being demand led, and the ongoing pressures arising from the cost of living crisis potentially increasing demands on this Budget, Audit Scotland point out that:

> "the Scottish Government needs to plan for how it manages the long-term sustainability of this expenditure and be clearer about how it will improve outcomes for Scottish people."

If social security spending demands exceed the Barnett consequentials added to the Scottish spending envelope, funding must be found from elsewhere in the Budget, further squeezing other “unprotected” elements of spend. On the spending choices made in the RSR, Audit Scotland conclude:

> “The planned increases in social security and health and social care spending reduces the spending envelope available for other areas of the budget. The remaining funding available once spending on health and social care and social security is taken into account, is lower than 2022-23 levels for the following three years in both cash and real terms.
>
> The Scottish Government will need to monitor budgets in non-priority areas closely, to ensure that changing spending levels do not impact the financial sustainability of these services. This should include reporting over the medium term the effectiveness of the reforms and efficiencies outlined in the RSR to mitigate any such risks.”

Suggestions for additional funding

As always, there were suggestions for additional resource in a number of areas.

For example, Inclusion Scotland agreed that these were the right priorities but additionally “urged” the Scottish Government to reopen the Scottish Independent Living Fund (the ILFS) to new applicants, as recommended by the Independent Review of Adult Social Care (they state this would cost around £32 million).

In light of the big increase in energy costs, Inclusion Scotland also called for more financial support for disabled people, who have greater energy costs for powering essential equipment. They also call for support to “off-grid”, generally rural households (around 8% in Scotland) who rely on liquid/gas fuel to heat their homes, and who they claim may not receive the £400 help with electricity bills.

The Child Poverty Action Group welcomed the RSR policy priority of “reducing child poverty”, arguing that “all policy and spending decisions must all be viewed through a child poverty lens.”

Voluntary groups called for additional, more strategic and multi-year funding. The multi-year funding requests, which also came from other voluntary organisations, arise from the RSR only presenting budgets at level 2 detail, meaning that voluntary organisations (whose budgets are normally found in level 3 or 4 budget line detail) are still not clear what their budget parameters will be over the RSR period.

Voluntary Action North Lanarkshire claimed that the voluntary/third sector “is relatively neglected in terms of government investment.” Volunteer Scotland wants to see greater recognition for volunteers, saying that “volunteering is not mentioned” in the RSR, despite the “vital role of volunteers in supporting health and wellbeing services”.

The Scottish Council for Voluntary Organisations (SCVO) called for “fair, flexible and accessible multi-year funding to help plan through the crisis” brought on by the cost of living crisis. This should include Annual inflationary uplifts for grant funding and contracts to ensure organisations: can meet rising costs to stay open; can pay the Living Wage as part of the expansion of the Fair Work First criteria."

Bord na Gaidhlig call for increased funding for Gaelic to reflect "the significance of Gaelic's contribution to Scotland's economy" and "to reflect growing demand and potential for the Gaelic language and culture."

Money Advice Scotland argue that

> "While we understand Scottish Ministers' rationale for prioritising health, social care and social security as we recover from Covid-19, we would want to urge the Scottish Government not to lose sight of the need for money advice services to support financial wellbeing of people across the country during an unprecedented cost of living crisis, that continues to unfold, as well as the Covid-19 pressures people have faced and continue to face."

Citizen Advice Scotland cite concerns about the "falling discretionary budgets of local government which could impact on their funding. CAS also cite research on the preventative benefits of their work "which found the value of [Citizens Advice network] our advice is worth up to £245 million net benefits for Scottish Society."

The Centre for Excellence for Children's Care and Protection (CELCIS) emphasised the importance of early intervention as a preventative measure that avoids increased spending on support later in their lives. They cite the Whole Family Wellbeing Fund as an important systemic intervention requiring ongoing support. They welcome the increase in the Child Payment to £25 per week and priority given to addressing child poverty in the RSR, and call for better pay for caregivers.

The Scottish Retail Consortium argues that the Scottish budget should seek to support consumer spending and keep down the cost of doing business. They voice concern around the current poundage/tax rate, and are against "a further hike next spring as mooted in the recent Spending Review."

> "A shift in mindset is required, with a shift away from trying to squeeze tax revenues from commercial premises to one which encourages commercial investment into retail destinations."

In terms of proposals to reduce the cost of government, the Scottish Retail Consortium state that Minister may wish to look at whether savings might accrue from reducing the number of local authorities, rate assessors, quangos, and planning authorities, and are against the creation of a new circular economic public body as mooted in the Circular Economy Bill consultation.

The Federation of Small Businesses (FSB) state that the Small Business Bonus rates relief scheme should be retained, and the Scottish Government should consider extending the scope of business rates relief "to mirror those schemes initially introduced to help hospitality and leisure firms hardest hit by covid restrictions...and which expired earlier this year. Given that public funds are at a premium, this support should focus on the independent businesses outside the scope of the Small Business Bonus."

The Scottish Chambers of Commerce calls for pro-growth policies that will not place additional pressures on businesses already struggling to recover from the pandemic. Key recommendations are made that cut across devolved and reserved areas. For example, in reserved areas they call for energy price cap for business, a VAT cut on energy bills, and a "rolling back" of the increase in National insurance contributions.

Asks of the Scottish Government include no further divergence between Scotland's and the UK's tax regimes "which could place Scotland's businesses at a competitive disadvantage"; the going ahead of the planned NDRI revaluation; the placing of a moratorium on all policy measures that increase business costs for the remainder of the Parliament; reduce where possible upfront business casts; invest in skills, training, infrastructure and connectivity "that businesses need to support a Just Transition and bolster green economic growth, as well as addressing the current talent crisis."

The Scottish Federation of Housing Associations (SFHA) believe that funding for affordable housing should be prioritised alongside health and social security.

The Fire Brigades Union is unhappy with recent allocations to the Scottish Fire and Rescue Service which it claims has only in 2022-23 exceeded 2012-13 funding levels in cash terms, with firefighter posts cut by 11%, and more than 1,000 jobs cut overall. They also point to capital spending cuts which have impacted on the services ability to maintain their estate and keep firefighters safe.

> "Therefore a budget freeze for the SFRS over the next five years is extremely worrying. Investment in SFRS and health and social are not mutually exclusive, real term cuts to SFRS budgets will have a direct negative impact on public safety, the budget should address the concerns of firefighters outlined."

Glasgow Life support the prioritisation of Health and social security, and argue for a particular focus on the most vulnerable and disadvantaged communities.

> "This could be driven by increased application of activities to support the social determinants to public health and the preventative reform agenda. Participation in aspects of culture and sport can mitigate against the impact of deprivation and health inequalities, particularly in relation to social isolation, obesity and mental health. More effective application of these approaches could be co-produced and designed with communities and health and social care planning and delivery structures. These programmes could be funded using partnerships between health, public health and culture and leisure structures."

Public Health Scotland also urge the prioritisation of primary preventative interventions that "invest in the building blocks of health to stop problems happening in the first place."

Funding local government

Several submissions raised what it considered to be "underfunding" of local government. For example, the Scottish women's budget group (SWBG) argue that:

> "Local government is responsible for delivery of numerous front-line public services which impact women and men differently. Investment, or lack of investment, in these services can serve to tackle or entrench inequalities. The real terms cut to local authorities will lead to a weakening of services at local government level. This cut in funding will have an impact on women both as service users and as workers within local authorities. Cuts to local authorities is likely to reduce the role in preventative spending measures as services are cut back."

There were submissions received from three local authorities (Aberdeenshire, Midlothian and South Lanarkshire) as well as a joint submission from COSLA, SOLACE and CIPFA Directors of Finance. These raised similar concerns around funding for local government in Scotland. Midlothian Council quote a figure of a 7% real terms decrease in funding in the RSR between 2022-23 and 2026-27, which they state "comes on top of significant real terms reductions since 2013-14.

Aberdeenshire Council also (like SWBG above) raised the preventative role of local government -- "through investment in Local Authorities and targeted early intervention, greater spending in Health Social Care and Social Security may be avoided. Local Government is the first line of support, and should be commensurately funded." Midlothian Council argued that the greatest investments are in "downstream" areas "as opposed to investing in the social determinants of health further upstream, eg. Housing, employability, training, etc" - "the Scottish Government is choosing to continue to direct spend at addressing problems, not preventing them occurring." COSLA/SOLACE/CIPFA raise a similar point.

Midlothian Council raised a particular local concern about financial support for that council to support the impact of population growth in the area:

> "The financial implications of growth in areas such as Midlothian are now very real, and at a significant scale, and the ability to manage these collectively at a time when the authority is facing financial challenges of an unprecedented scale is becoming impossible to sustain."

Local government voices again raised concerns about the ring-fencing of money for Scottish government policy delivery, rather than allowing for local flexibility. There were also calls for longer-term budget commitments to support better planning for local needs.

COSLA/SOLACE/CIPFA argue:

> "The increasing trend of providing highly-directed funding to Local Government should be reversed, giving Councils more flexibility to make decisions that ensure best use of resources based on local need and priorities. There needs to be a greater understanding of the opportunity cost of introducing new policies in this way, when it comes at the expense of core funding."

Cost of living, inflationary pressures and public sector pay

Nearly all the submissions raised concerns around the cost of living crisis. The UK is currently facing a 40 year high in inflationary pressures which will impact on individuals, communities, businesses, the public sector, and the third and voluntary sectors.

The SCVO state that "unlike households, there is no energy cap for voluntary organisations, which leaves them completely exposed to the wholesale costs of energy on the market."

There is also a question as to how deliverable the public sector pay spending assumptions are in the RSR given the increase in inflation. With pay demands and strike action increasing, the following point by Audit Scotland seems to suggest governmental pay plans may not be deliverable.

> "The MTFS sets out that the central spending scenario, on which the RSR is based, factors in a 2 per cent annual pay award and a 1 per cent annual workforce increase. At its higher scenario (3% pay award, 2.5% workforce growth), this would result in an additional cost of £1.3 billion by 2026/27.
>
> Deviation from the central scenario therefore has a significant effect on the Scottish budget, where several portfolios are already seeing real-terms reductions over the medium-term. The impact of changes in public sector pay on the Scottish budget should be closely monitored against medium-term projections. Future budgets and medium-term plans will need to be clear about how deviations are being managed and funded, and how this is affecting spending towards priorities and wider public services."

The Health and Social Care Alliance Scotland (the ALLIANCE) flag up concerns about the impact of inflationary pressured on the vulnerable and the third sector. The ALLIANCE supports the priority given to social security expenditure, however, want eligibility increased. They also state that the Scottish Government

> "should ensure that all devolved payments are increased in line with inflation in order to help maximise recipient's income. Insofar as is possible, it should also provide adequate pay increases to public sector staff, and ensure appropriate, sustainable funding is provided to third and independent sector organisations. This should include further progress on increasing pay in the social care sector, where the majority of workforce are women and have historically been low-paid and undervalued."

Unison submitted a very detailed response, which centred on the cost of living crisis and public service pay and political choices facing the Government around taxation. They also perceive a threat to jobs coming from the National Care Service Bill which it states could take 75,000 jobs from local government adding to worries around the potential job losses from public service reform and "efficiency" savings.

The COSLA/SOLACE/CIPFA submission forcibly highlights what it considers to be the risks from the National Care Service Bill as currently drafted:

> “The National Care Service as currently proposed poses a risk to councils’ ability to deliver a wide range of services for communities – including non-social work and care services – resulting in a destabilising of the Local Government workforce and potentially impacting on the sustainability of some councils to carry out their functions and responsibilities. Further costly, time-consuming structural reform of public services will only lead to further upheaval at a time when the focus should be on supporting people through the recovery from the pandemic and the cost-of-living crisis.”

Unison’s submission urges action on public sector pay, and calls for collective bargaining for social care. Unison also calls for free school meals to be extended to P6 and P7, something the First Minister has since committed to in the Scottish Government’s Programme for Government.

From a business perspective, the FSB submission cites research claiming nine in ten Scottish firms (91%) reported an increase in costs in the second quarter of 2022. When asked to identify the source of increasing costs, 73 per cent of Scottish businesses pointed to fuel while 67 per cent cited utilities.

> “Household spending accounts for almost two-thirds of Scotland’s GDP, but many people have seen their costs increase at a rate in excess of any increase in their income. Since the beginning of the year, households have been increasingly uneasy about spending money as inflationary and cost of living pressures have increased, with the household finances indicator falling to -23.3 in April. This has a knock-on impact for the small businesses for whom these households are customers.
>
> With around one in six businesses in Scotland predicting that they will shrink, be sold or close over the next 12 months, it is vital for the wider economy that the Scottish Government does not respond to budgetary challenges by imposing more pressures on small businesses.”

South Lanarkshire Council cites the impact of inflation overall local government funding. It also highlights inflationary impacts on capital programmes as a concern:

> “like all sectors, we have seen large increases in the costs of materials. Unlike the private sector, of course, we do not have the option of passing those costs on directly to the customer.”

The Scottish Property Federation raise similar concerns about high construction inflation and its potential to threaten flagship policies like affordable housing delivery. They call for no new regulatory burdens from central government as a way to assist economic growth.

Public Service Reform

Scottish Human Rights Commission highlight a concern (shared in several submissions) that talk of “efficiencies” in the public sector “in reality often means cuts, and cuts mean that maintaining effective public services will be extremely difficult."

Carnegie UK is concerned that the pursuit of efficiency savings might have the unintended consequences of undermining the priorities set out in the Spending Review.

> "Our research on kindness in public policy highlighted that a new public management approach that focuses on improving efficiencies and delivering value for money can "squeeze the space for kindness"; and that designing relationships out of a system can lead to poorer public service outcomes."

The Audit Scotland submission recognises that setting out proposed efficiencies, reforms and spending priorities is sensible, "however there are financial risks attached which the Scottish Government must manage closely over the medium term." On public sector pay, Audit Scotland make the point that "keeping the public sector pay bill at its current level while still allowing for pay increases will only be achieved alongside reductions in staffing levels. This may take time to implement, and it is important that this is done in a way that is financially sustainable and allows services to be delivered."

Questions around the timeframe required to see budgetary savings come through the system is raised in a number of submissions. For example, the Scottish Property Federation state that:

> "The processes are likely to take some time to deliver and therefore may have little direct benefit in the near future. This does not mean these reforms should not go ahead as they should have important long term benefits for Scotland."

In the short term for example, Audit Scotland point out that digitisation will require spending in the budget to deliver long-term efficiency. Unintended consequences, like "digital exclusion" from public service reform are possible and should be carefully considered, according to Audit Scotland (a similar point is made in the submission by Professor David Heald, the David Hume Institute, the ALLIANCE, and the Scottish Women's Budget Group):

> "For example, digitisation must be done in a way that overcomes issues with digital exclusion for some citizens, and planning for estate rationalisation must be done effectively to ensure overspends do not occur as they are implemented."

On digital public services, the David Hume Institute state that

> "The Scottish Government's commitments to Open Data are essential to realising the benefits of digital public services. Our briefing paper indicates that over 95% of the data that could be open is still locked up, at an estimated annual cost to the Scottish economy of just over £2bn."

South Lanarkshire Council call on the Scottish Government to look at ways councils can be encouraged to move to standard digital platforms and solutions, perhaps by assisting with project/implementation costs where this is a barrier. They argue:

"Encouraging and incentivising councils to adopt standard solutions saves money in several ways:

-Lower procurement and ongoing support costs
-Negotiate better pricing due to increased volumes
-Share best practice between councils
-Redesign processes to be more efficient
-Less need for costly custom developments
-Faster, less risky implementations
-Adopt new technology faster (eg Cloud)"

The SCDI are very supportive of moves that will improve the use of safe, digital technology in Scotland:

> "Long-term, strategic investment in health and social care innovation will be critical. New and emerging technologies – enabled and underpinned by ethical, robust and secure data – can and should play a vital role in transforming health and social care. As Scotland looks to build public health resilience after the COVID-19 crisis, it has never been more important. It has been estimated that Scotland's health and social care data could be worth £800m every year, and deliver an estimated £5.4bn in savings for NHS Scotland – 38% of its current budget and three times its predicted budget shortfall by 2025."

The Scottish Human Rights Commission, however, voice concerns around digitisation drawn from research in the Netherlands where algorithm design reinforced existing biases of a link between race and ethnicity, and crime. As such, they recommend that "any digitisation of services needs to be done very carefully with full impact assessments carried out for any change in service."

The Scottish Human Rights Commission are supportive of preventative spending as a vehicle for supporting better outcomes, citing research by the London School of Economics which estimated that focusing on the prevention of poor mental health could save £8.8 billion annually in Scotland.

> "this RSR ambition to focus on preventative spend must be matched with concrete detail about what exactly is meant by a 'demonstratable preventative approach' and there needs to be an indication of what resources are to be dedicated to preventive policy. The RSR presents a lot of narrative about preventative spend, but this is not currently backed up with a connection to resource allocation.
>
> There must also be more information on how policies are assessed for preventative impact, with explicit analysis within the RSR and ongoing mechanisms in place to monitor and evaluate the impact of preventative spend."

The submission by the British Heart Foundation calls for increased investments in medical research as a means to drive economic growth and as a preventative intervention to save public spending in the medium to long term. Specifically, the submission calls for increased funding for the Chief Scientist Office (CSO) "in line with the per capital funding of the NIHR (National Institute for Health and Care Research) by the UK Government. This means increasing the budget of CSO from £69.9 million to £103 million to establish and support research infrastructure and career development in Scotland."

In terms of managing the public sector estate and office space, the David Hume Institute argue that there is a need to think beyond that. Specifically, "critical infrastructure in communities such as community centres and libraries need to be prioritised due to their important contribution to social cohesion and should be considered preventative spending."

The Resource Spending Review sets out the Scottish Government's intention to freeze the public sector pay bill at current levels, implying that reductions to the size of the public sector workforce may be planned. Midlothian Council question whether this is feasible for local government, stating:

> "Between 2006 and 2018, there was a steady reduction in local government workforce due to significant efficiency savings and service transformation programmes. By 2018 the workforce had reduced by circa 15% from 2006 levels. Significant Scottish Government policy direction since 2018 and the need to respond to COVID has meant staff increases to the extent that if staffing for additional commitments is removed, the Local Government staffing levels would be back at 2018 levels.
>
> This is in contrast to trends in other parts of the public sector which have seen Scottish Government nearly double since 2006, Scottish Government agencies grow by 15% and NDPBS more than double."

On the RSR expectation that public bodies deliver 3% recurring annual efficiency savings, the COSLA/SOLACE/CIPFA submissions argue that local government has already achieved significant efficiencies and that "any 'easy' savings have been made, and further reductions will have a major impact on services."

Procurement

Jubilee Scotland's submission is critical of the use of Public Private Partnerships (PPPs), claiming they are poor value for money, "highly lucrative for the private sector, hidden debt is accumulated for local councils, and limited public finances are misused."

They suggest two moves the Scottish Government should make to achieve an efficient move towards the public ownership and management of public estates and services:

> "let the planned Infrastructure Company [from SNP 2021 election manifesto] play a key role in moving towards public ownership of infrastructure and make it a centre of local government support and; mandate the Scottish National Investment Bank (SNIB) to invest in public infrastructure projects."

The David Hume Institute argue that on public procurement, "there is more that could be done to realise its full potential" as a "strategic tool to help deliver on the national outcomes." The claim that the sustainable procurement duty in the Procurement Reform (Scotland) Act 2014 is underutilised.

> "The Scottish Government's Annual Procurement Report 2020-21 states that it manages national contracts and frameworks through which public bodies and the Scottish Government spent more than £1 billion during the year. NHS National Services Scotland states they manage over £1.4billion worth of contracts. These are just two large examples, so the total procurement spending will be significantly higher."
>
> The Scottish Government report shows progress is being made on including some social criteria within contracts. For example 92% of suppliers pay the living wage but given the size of the total budget, creating "146 brand-new jobs, 27 apprenticeships, 31 work placements and 453 qualifications" seems very low. The report also states "We awarded 21 new contracts with community benefits incorporated. This brings the total number of live contracts with community benefits to 62". This is just 0.6% of the total contracts awarded in 2020/1.

The David Hume Institute point out that the Scottish Government is piloting community wealth building approaches by looking at public procurement within some places but there is still greater potential for using procurement as a tool to drive change.

> "The requirements and criteria used to assess bids have a huge impact on the value from these contracts. In a similar way to organ donation now being opt out, all procurement contracts should have standard environmental and social policy criteria such as work placements or training opportunities and if an individual contract or procurement initiative opts out there should be a public duty to state the reason as a matter of public record. More could also be done to realise benefits and increase transparency throughout supply chains."

Similar points are made by the SCDI who also argue that "public contracts should be redesigned to increase opportunities for local supply chains to offer innovative and holistic solutions, and help to grow and harness wealth within communities." Procurement should also have an environmental angle:

> "Government and businesses should stimulate innovative low carbon products and services using their buying powers. This could include adding, during evaluation processes, the carbon cost of a bid onto the price quoted. Procurement of housing should prioritise suppliers who embed net zero carbon design, circular economy principles, modern methods of construction, bio-based materials, and fair work principles. A percentage of procurement on contracts for offsite fabrication should be set."

The FSB submission raises the point that eight years after the passing of the Procurement Reform (Scotland) Act 2014:

> "the share of contract spend value going to micro businesses is under 5% and has indeed declined in recent years. While the primary opportunity to address this will be through the forthcoming Community Wealth Building Bill, it is

> important that the Budget does not restrict purchasers to such an extent that they are unable to realise the Bill's aims."

Revenue raising options

On tax, Audit Scotland highlight the important interaction between the relative performance of taxes in Scotland compared to the rest of the UK. As such, the Scottish Government will have a tax policy decision to make should the UK Government opt to reduce income tax rates.

Organisations like the ALLIANCE, the Scottish Women's Budget Group and the Scottish Human Rights Commission argue the need for progressive taxation to maximise revenues and deliver the "minimum level of rights provision progressively realise rights over time, and ensure retrogressive steps that reduce the fulfilment of people's rights are not deliberately taken nor necessary." SHRC added:

> "There are a number of revenue raising tools that the Scottish Government could consider beyond income tax, including land value taxation, revaluation of property to support local tax reform, wealth taxes, and the revenue of the Crown Estates.
>
> As the Commission has previously documented, Scotland does not currently use the full extent of its taxation powers to generate resource in line with its human rights obligations. The RSR should clarify this and make sure that full consideration has been given to implementing targeted taxes to raise public resources to be allocated for upholding the rights of those most vulnerable in Scotland."

Another way in which tax receipts will improve is to reduce the levels of "inactivity" in the workforce, particularly amongst older workers and those who might be suffering from chronic illness and disability, including mental health problems. This is raised in the submission by the David Hume Institute who continue:

> "Working to remove barriers for those who want to work and supporting people in transitions between working and receiving benefits would have an effect across the Scottish Government's priorities.
>
> If the 1 in 5 'inactive' people who want to work (174,700 people) were able to, then tax receipts could be boosted through both income tax take and National Insurance consequentials, and the budget increased via lower social security payments. This could also help cut child poverty rates as the biggest risk factor for putting a child into poverty is to live in a household where no one is in paid work. The majority of economically inactive families in poverty in Scotland are permanently sick or disabled, and the relative poverty rate for children in households where someone is disabled is 30%."

COSLA/SOLACE/CIPFA argue that local government should be empowered to raise revenue locally for reinvestment in local services.

> "There are a number of options for revenue raising that Local Government could be empowered to use and Scottish Government should additionally

work to establish a fiscal framework which enables Local Government to invest in their communities and services, thereby improving outcomes and supporting the progressive realisation of rights. This could include utilising Local Government powers to set planning and building control fees locally, ensuring full cost recovery, or the power to introduce a “tourist tax” if deemed locally appropriate. This particular option has been used successfully in other countries, and only impacts on those who are able to pay.”

Several submissions called on the Scottish Government to increase taxation to fund additional public spending. For example, an individual response from John Maclean stated “we are fooling ourselves if we believe we can go forward without increased levels of taxation.” Catriona Holden called for the raising of taxes “on the richest people and organisations.” The Fire Brigades Union calls for extra revenues to be raised from taxation to “avoid forcing through...damaging cuts”.

The Scottish Trades Union Congress (STUC) make a number of calls around taxation and the generation of new revenues. Specifically, they call for greater use of income tax levers to raise revenue; the exploration of new local wealth taxes (potentially modelled on Switzerland’s local net wealth tax); a scrapping of the small business bonus; replacement or reform of the Council tax; provision of local authority discretions to introduce new taxes to meet local circumstances and needs – for example, tourism, environmental and fair work taxes.

The Child Poverty Action Group call for the Scottish Government to

- use Scottish powers over income tax to increase revenues;
- commit to not implementing in Scotland any income tax cuts that are instigated in the rest of the UK;
- review the costs, and benefits, of the current system of non-domestic rates; and
- consider the opportunities for further harnessing Scotland’s wealth.

However, on the other side of the debate were individual respondents Peter Patton and Darren Higgins who argued that “freezing the thresholds for tax bands are bringing too many ordinary workers and middle income earners into the top rate.”

The SCDI note that by not increasing the threshold of the band of the higher rate of income tax is expected to increase the number paying it from 7% of taxpayers in 2016 to 17% in 2027-28. “

Inclusion Scotland cite research by the Institute for Public Policy Research (IPPR) which suggests gradually raising Council Tax for higher value properties over this Parliament which they claim could generate “an additional £400 million a year by 2025-26.

> “In our view, working with industry to increase productivity, raise wages and attract more people to work in Scotland would be a more robust approach to the challenge of generating revenue than this ‘fiscal drag’. Creating these conditions should be the priority for Budget 2023-24 and the Spending Review.”

Alcohol Focus Scotland suggest that an alcohol harm prevention levy could be applied to retailers licensed to sell alcohol via a supplement on non-domestic business rates. The funds raised would help offset the significant costs to the public sector of dealing with the consequences of alcohol harm.

> "A similar approach was previously employed by the Scottish Government between 21 April 2012 and 31 March 2015 "to address the health and social problems associated with alcohol and tobacco use" and to generate income for preventive-spending measures. The Public Health Supplement was successful in raising significant revenue of £95.9m over its 3-year duration. It was applied to retailers licensed to sell both alcohol and tobacco with a rateable value of £300,000 or more. The supplement was regulated for through the Non Domestic Rates (Levying) (Scotland) (No. 2) Regulations 2012, in exercise of the powers conferred by section 153 of the Local Government etc. Scotland) Act 1994.
>
> An alcohol harm prevention levy would create the means to claim the increased revenue that off-trade alcohol retailers have likely experienced following the implementation of minimum unit pricing (MUP) in 2018 and on-trade COVID-19 restrictions. It was estimated that a 50p minimum unit price would result in increased revenue to the alcohol industry, specifically to retailers (off-trade), of around £40m a year. Off-trade sales in Scotland increased by 13% in 2020 and 15% in 2021 (January to May), compared with the average for 2017–19."

The Chartered Institute of Taxation (CIOT) and the Institute of Chartered Accountants of Scotland (ICAS) submission focuses on areas of the tax system it would like to see changed or progressed, rather than specific tax policies of the Scottish Government. For example, they call for progress with the review of the additional dwelling supplement for the Land and Buildings Transaction Tax, and clarity on the proposed devolution of Air Passenger Duty (APD), and reform of council tax. They also call for consideration of a Scottish Finance Bill to enable proper scrutiny of the existing devolved taxes, and the resumption of the Devolved Taxes Legislation Working Group.

CIOT also highlight the continued setting of dividend taxation rates by the UK Parliament is a "standing invitation to higher rate Scottish business income taxpayers to consider remaining within lower UK rates of taxation by incorporating their businesses and paying corporation and dividend tax, rather than paying Scottish earned income tax rates.

Spending and the national outcomes

The Scottish Human Rights Commission argues that the fiscal policy making process in Scotland is back to front, and that budgets are allocated without "specific outcomes linking resource allocation and spend with impact, meaning no direct link to the aspirations and objectives set out in the National Performance Framework (NPF)."

The submission goes on to say that the NPF needs to be more closely aligned with the spending commitments in budgets. “The government’s policies would then be designed to respond to those concerns and an assessment made to ascertain the level of the resources required to deliver on those policies....

> “Following allocation, the government should then monitor: whether the money was spent as planned and if process was followed for redistribution; what was delivered and to whom; and evaluate whether the policy wasimplemented as planned and what impact it had.”

Similar points are made across a number of submissions, and there is a general feeling that the NPF could be better used across the Scottish Government and public bodies and linked to spending decisions.

Audit Scotland state that the Scottish Government reported on the impact of the pandemic on the long-term trends in the NPF. It argues that a similar reporting exercise will be required for how the cost of living crisis is affecting the NPF outcomes.

Audit Scotland also claim that the Scottish Government needs to report on how portfolio budgets are working together towards the shared performance outcomes (for example tackling inequalities and addressing climate change) which require interventions across portfolios and cooperation with the third and private sector.

> “Some of these contributions will be made by public services in non-priority areas of the budget, such as police and universities. As such, analysing and reporting upon how portfolio budgets are working together towards shared goals is vital. This should include considering how changes in budget levels between portfolios is affecting progress, allowing better scrutiny and informing future budget decisions.”

Carnegie UK was “disappointed that the National Outcomes were not referenced more explicitly within the Spending Review.

> “Furthermore, the Spending Review’s lack of alignment with the National Performance Framework is also evident within some of its contents. There are significant real-terms cuts to local government. We acknowledge that with the limited resources available to the Scottish Government, there is a need for prioritisation within budgets. However, from their inception in 2007, the Scottish Government has acknowledged the vital role local governments play in delivering the National Outcomes, as they are the ‘Golden Thread’ which runs through all local government work.”

South Lanarkshire Council also make the point that some of the outcomes influenced by “how people experience their local areas, communities, and sense of agency and empowerment” will be adversely affected by the flat cash commitment to Local Government set out in the RSR.

The Scottish Women’s Budget group state that the

> "The Equality Fairer Scotland Statement (EFSS) published with the RSR does set out a section on National Outcomes and has made a good effort to provide connections to some of the relevant human rights and the nine areas of opportunity/concern. However, there is a lack of information to consider links between resources and the National Outcomes. This is the same for the main Scottish Budget and associated documentation.
>
> Many of the national outcomes are making slow or no progress. This requires deeper investigation and evaluation of how past budget decisions have impacted, positively or negatively on the outcomes. SWBG would hope that the prioritisation of social security and care would support the recent downward trend in persistent poverty rates but there are no current documents produced by the Scottish Government that make explicit resource allocation links to the National Outcomes.
>
> Later this year the Scottish Government will start a process of reviewing the National Performance Framework and the National Outcomes. This is an opportunity to look at how these sit alongside the budget process and work together, including how clear and transparent information linking the budget to the NPF can be put together."

Transparency

Several submissions responded to the Committee's question on how the RSR reflected the Scottish Government's commitment to fiscal transparency. The SCVO argued that

> "Without the tools to measure the impact of budget increases, decreases and preventative measures, it's difficult to understand the actions taken by the government and how and why funding flows from the government to the voluntary sector in the way it currently does."

A similar point is made in the submission by Alcohol Focus Scotland who state It is unclear where the Scottish Budget 2022-23 investment of "£147.6 million to address the twin public health emergencies of drugs deaths and the harms from alcohol" was used, and how much was specifically used for alcohol. Although the Scottish Budget 2022-23 breaks down spending on four different levels, one cannot easily (if at all) track the investment in preventing and reducing alcohol harm. Without knowing how much money was spent and where it was spent, it is difficult to say where further investment is needed and whether investment is resulting in returns for the people of Scotland.

The Scottish Human Rights Commission noted that it was disappointed the "first spending review in almost 10 years lacks transparency.

> "Whilst it is understandable why the RSR can only provide Level 2 data for years 3 and 4 of the review, it is not sufficient in terms of transparency to only provide Level 2 data for the forthcoming two years. As the Fraser of Allander have already noted, many organisations such as SEPA, Health Boards, and Zero Waste Scotland are unable to see what specific allocation they may receive...

Fiscal transparency requires the provision of comprehensive and accurate information on past, current and future activities of the government, and the availability of such information can help to improve the quality of decision making processes. It is an important element in the effective management of public finances, and it helps to build the confidence of the general public in the work of public bodies, thereby contributing to the sustainability of public policy implementation."

Audit Scotland concludes its submission with the following call for better read across between proposed spending, outturn spending and links with achieving national outcomes:

> "Both my report on the Scottish Government's consolidated accounts 2020/21 and my report on Covid-19 finances, I have reported that it can be unclear how spending announcements link to budgets and subsequent spending. In turn, better links are also needed between spending in portfolios and performance towards achieving national outcomes.
>
> The RSR sets out a period of increased financial uncertainty and tighter public spending envelopes. This increases the importance of strengthening the reporting of these links, to ensure that efficiencies are met, and that public services are delivered effectively and economically."

A similar point is made in other submissions (for example the Scottish Property Federation) around whether there is sufficient follow-up around what is allocated to a budget and whether that is actually spent. This could be "better tracked through more frequent scrutiny by the Finance and Public Administration Committee, perhaps on a quarterly basis."

There are also calls for better transparency to improve public understanding of the Budget. The Scottish Women's Budget group say that "producing a Citizen's Budget document annually to provide budget information in a clear, accessible way that links to everyday life would be an important step forward for the Scottish Government, and make it a leader within the UK in transparency of budget information."

In response to the Committee's question on the transparency of the RSR, Professor David Heald made the following points:

> "What is striking about the RSR is that it brings multi-year budgeting without the evaluative analysis that characterises the OECD interpretation of what a Spending Review should entail. For example, there is no analysis of the size or effects of the super-parity items in the Scottish Budget which have built up since 1999, in contrast to the analysis for Northern Ireland by the Northern Ireland Fiscal Council (2021). Instead, there are media-friendly snippets about Scottish public sector pay being 7% higher than in England (without decomposition of the workforce) and a commitment to reduce the Scottish public sector workforce to the pre-COVID level (without analysis of where and why that growth has arisen). Arbitrary targets for workforce reduction will lead, inter alia, to loss of operational capacity, ineffective outsourcing and industrial disputes.

> In a crisis situation like the present one, there is a strong case for the Scottish Parliament to allow the Scottish Government as much flexibility as possible in day-to-day budgetary management within the framework set by the Scottish Budget. In return, the Scottish Government should commit to timely in-year reporting of how spending and revenues are developing. Moreover, the Scottish Government should release costings of their policy options and prepare costings for alternative proposals. That also means that such requests for costings should not be leaked to embarrass parliamentarians or parties asking for those costings.
>
> The devolution settlement which has developed since 1999 is at great risk, and damage done now could be impossible to repair. The settlement will not work without a degree of co-operation between the UK Government and the devolved administrations, and the public rhetoric is currently ugly."

The FSB state they would "welcome increased government efforts to produce comparable numbers for previous years, listed under consistent budget headings. Their absence inhibits scrutiny of spending changes, and does not help improve overall transparency."

The SCDI say there is a need to ensure that decisions by the Scottish Government and the Scottish Parliament on the Scottish Budget "are reached following thorough evidence-based assessments and consultations with stakeholders..."

> "Alongside existing impact assessments, there should be a prosperity impact assessment for new policies. All policies and spend should be subject to a genuine requirement for post-implementation evaluation, and policies which do not work should be thoroughly reviewed to ensure that any lessons are identified, shared and learned to improve future policy-making."

Net zero obligations

As you would expect, many submissions cited improving the energy efficiency of the housing stock as a key vehicle for delivering on climate obligations. For example, CAS state that "greater investment in energy efficiency measures... should continue to be a priority. This will have two major benefits – creating jobs and spurring economic growth, while also bringing bills down for consumers in the long run."

Homes for Scotland states that housing developments can help in the push to meet net zero targets by increasing the stock of energy efficient homes. To deliver this, Homes for Scotland argues that it is essential the funding to the Affordable Housing Supply Programmes is not reduced. As well as calling for the budget prioritisation of affordable housing, the SFHA submission makes the argument that "buildings are made as energy efficient as possible before investing in alternative heat sources".

Cycling UK emphasised the importance of cycling in reducing emissions from transport. This submission cites the Scottish Government own target to spend at least £320 million on active travel by 2024-25. It points out that the active travel budget in 2022-23 is £150 million, and calls for that to be at least £235 million in

2023-24 (an increase of £85 million) to ensure a “straight-line trajectory in funding towards achieving the £320 million commitment the following year.”

> “This level of commitment in the interim year will send a message to local authorities that government is serious about meeting its commitment, boosting cycling, walking and wheeling, and funding the projects to make this possible.”

Midlothian Council claims that the RSR settlement leaves local government with no additional capacity to take forward the necessary investment in its asset base to shift to net zero:

> “As such the CSR does not appear to make any attempt to target spending to help Councils achieve net zero targets. There needs to be engagement between levels of Government to understand the costs of achieving net zero targets and how best to fund these across the whole public sector.”

The STUC argue that “transitioning to net zero will only be realised in a just way, if there is significant investment in rail services, publicly run buses, democratically controlled renewable energy and energy efficient homes.”

Equalities and human rights budgeting

The Scottish Human Rights Commission submission contends that the Government’s RSR has not considered human rights obligations. Noting the Equality Fairer Scotland Statement that “we have considered equality, fairness, and human rights impacts throughout the spending review process,” the Commission states that this is “not clear.”

Similarly, the Scottish Women’s Budget group content that “there is a need to embed human rights and equality as an overarching priority for Scotland’s public spending and revenue raising decisions.”

For example, the Scottish Women’s Budget group argue that

> “Women and men continue to experience inequalities in pay, in employment and promotion opportunities, and in the harassment and abuse they experience, with women being more likely to experience poverty at all points in their life. Women still have more responsibility for unpaid work including childcare, care for older or disabled people, and domestic work. For many women, this means a greater reliance on public services and can limit the time they have for paid work and other activities. Spending commitments on policy and programmes have to come from an intersectional analysis of the needs based on the different lived experiences that come from the different inequalities that women experience. Failure to incorporate a gendered perspective within pandemic recovery budget efforts will deepen existing gender inequalities and worsen outcomes for women.
>
> In order to embed this type of analysis the Equality and Budget Advisory Group has published core recommendations for equality and human rights budgeting in this parliamentary session. These include important

> recommendations around the budgetary process, communications, organisation and culture, and knowledge and understanding. We urge the Committee to support the implementation of these recommendations as a matter of urgency. These recommendations are also relevant to build into Committee scrutiny processes.
>
> Public clarity is needed from the Finance and Public Administration Committee on how it will build scrutiny from an intersectional gender perspective in the scrutiny of how Scotland's public finances are being used to drive and deliver a fair and just recovery."

Engender also highlight gender inequality issues throughout its submission, and concerns around "the lack of attention the Scottish Budget process plays to structural gender inequality, and women's and men's differing lived experiences... Yet with the unfolding economic crisis, robust and intersectional gender budget analysis is more urgently needed than in any time since its introduction to Scotland's budgetary processes"

Engender point to the cost of living crisis disproportionately impacting on women, in particular black women, and women from certain ethnic minority communities, disabled women, lone parents, unpaid carers and women with insecure immigration status.

In terms of actions to respond to the systemic issues highlighted in its submission Engender recommend that:

> "The Scottish Budget 2023-24, as well as any emergency financial packages that may be made available, must fundamentally take stock of the issues set out in this submission of evidence within a comprehensive application of gender budget analysis. This means that allocation of resources across all spending portfolios must proactively seek to address the underpinning inequalities experienced by women in Scotland."

Scrutiny of the gendered impact of spending should be a "responsibility of all Scottish Parliament committees and not just that of the Equalities, Human Rights and Civil Justice Committee." Engender also argues "that the EFSBS needs a clearer purpose and revised timing to substantively inform development of the Scottish Draft Budget and to be used more effectively by MSPs and parliamentary committees in their budget scrutiny."

Concluding its submission, Engender call for the Finance and Public Administration Committee:

"• To systematically consider how spending decisions and revenue-raising cumulatively impact on women, men and structural gender inequality;

• To examine available evidence on the impact of the cost of living crisis on women and women's equality in its scrutiny of the forthcoming budget, as well as ongoing implications of the pandemic for women's equality and rights;

• To advocate for budgetary decisions that seek to proactively address these gendered inequalities at a time of great need, including investment in local services;

• To urge Scottish Government to turn EBAG's recommendations for equality and human rights budgeting into a prioritised and well-resourced action plan."

Ross Burnside, Senior Research Specialist, SPICe Research
September 2022