Finance and Public Administration Committee

3rd Meeting, 2021 (Session 6), Tuesday 7 September 2021

Pre-Budget Scrutiny 2022-23

1. At this meeting, the Committee will take evidence as part of its pre-budget scrutiny 2022-23 from two panels of witnesses as follows—

Panel 1:

- Polly Tolley, Director of Impact, Citizens Advice Scotland;
- Laura Mahon, Deputy Chief Executive, Alcohol Focus Scotland;
- Adam Stachura, Head of Policy and Communications, Age Scotland; and
- John Dickie, Director, Child Poverty Action Group (CPAG) in Scotland.

Panel 2:

- Kevin Robertson, Chair, Scottish Property Federation;
- Joanne Walker, Technical Officer for the Chartered Institute of Taxation and its Low Incomes Tax Reform Group.

2. Written submissions from these witnesses are attached at Annexe A.

Pre-Budget Evidence to the Committee

3. The Committee's pre-budget scrutiny continues work undertaken by its predecessor Committee in Session 5 on the impact of COVID-19 on the public finances and the Fiscal Framework[1].

4. The Committee issued a call for written views over the summer in which it sought responses on how the Scottish Government's budget in 2022-23 should address the following questions—

   - How should the Scottish Government's Budget for 2022-23 address the need for a fair and equal recovery from the Covid crisis?

   - How should the Scottish Government's Budget address the different impacts of the pandemic across age, income and education groups and across places?

[1] https://www.parliament.scot/parliamentarybusiness/CurrentCommittees/115076.aspx

- In 2022-23, it is likely that there will be reduced levels of available Covid-related financial support for the public and private sector. Given this, what should be the priorities for the Scottish Government's Budget?

- How should the Scottish Government Budget in 2022-23 address the risks arising from the level and rate of recovery from the pandemic in Scotland relative to the rest of the UK? Please consider any impact on devolved tax receipts and social security benefits in your answer.

- How has the Fiscal Framework worked in managing response to the crisis?

- How should learnings from the pandemic inform the forthcoming review of the Fiscal Framework?

5. The call for views closed on 13 August 2021 and a total of 45 responses were received. All submissions can be accessed on the Committee's website via the following link: Published responses for Scotland's public finances in 2022-23 and the impact of Covid-19

6. A summary of written evidence has been produced by the Financial Scrutiny Unit in SPICe and is attached at Annexe B. The briefing is structured on the basis of the following themes which Members may find helpful in framing their questions to witnesses—

   - COVID recovery and budget priorities
   - Green recovery
   - Linking the Budget to Outcomes and the National Performance Framework (NPF)
   - Different impacts of pandemic by age, income, education and place
   - Local Government funding
   - Support for retail sector
   - Support for Voluntary sector
   - How should Budget address the risks arising from the level and rate of recovery in Scotland relative to the rest of the UK?
   - Use of tax powers
   - Fiscal Framework performance during pandemic
   - Issues for the Fiscal Framework review
   - Human rights budgeting
   - Budget transparency and public participation

7. The Committee previously took evidence to help inform its pre-budget scrutiny from the Scottish Fiscal Commission and the Cabinet Secretary for Finance and the Economy at its meeting on 31 August. The meeting papers and official report are available on the Committee's website: Finance and Public Administration Committee 2nd Meeting, 2021

Next Steps

8. The Committee is expected to hold a further evidence session with respondents to its call for written views at its next meeting on 14 September before holding its final pre-budget scrutiny session with the Cabinet Secretary for Finance and the Economy before October recess. The Committee is then expected to publish its report on its pre-budget scrutiny in early November.

Finance and Public Administration Committee Clerking Team
September 2021

ANNEXE A

Written Submissions Received for this Meeting

Submission from Citizens Advice Scotland

1. How should the Scottish Government's budget for 2022- 23 address the need for a fair and equal recovery from the Covid crisis?

Building on our submission to the Advisory Group on Economic Recovery (https://www.cas.org.uk/system/files/publications/cas_ager_submission.pdf) we would reiterate three key points;

- The importance of an inclusive recovery that puts incomes and living standards at the heart of economic growth
- The importance of a just transition to net zero emissions
- The value of a well-funded and resourced advice network for Scotland

Even before the pandemic, the Citizens Advice network in Scotland saw first- hand the reality that too many people in the country were struggling to make ends meet.

Fast action from policy makers at the outset of the pandemic, such as the furlough scheme and boosting the Scottish Welfare Fund, made a difference to peoples' lives.

The risk over the next year, however, is that losses as a result of furlough winding down, cuts to Universal Credit, and the withdrawal of other forms of financial support will leave greater numbers of people struggling.

Polling carried out for CAS by YouGov in May 2021 revealed that around one in seven people are struggling on their present incomes. (https://www.cas.org.uk/news/one-seven-people-struggling-their-present-income)

It's important for the Committee to recognise the challenges posed to the recovery by a cost of living or income crisis. It means less demand in the economy, consumers with less spending power, and more pressure on social services as a result. Any increase in poverty translates to increased demand on public and third sector services, and will be devastating for the individuals affected.

Therefore spending choices to prevent increases in poverty via early intervention and prevention will be key.

On the issue of a just transition to net zero, there is real potential to create high quality, well-paying jobs in the green economy and we believe the investment to deliver those jobs is essential.

Consumer understanding around what net zero means for them is also a factor that has to be considered given the need for behavioral change in this area.

Research undertaken for CAS shows that, while people are supportive of net zero and want it to be more of a priority, they don't understand the changes that will be required in their day to day lives – like moving away from gas heating. (https://www.cas.org.uk/publications/consumer-voices-energy- efficiency-climate-change-and-low-carbon-heating)

When this is explained to consumers, the question of cost becomes a factor – both the upfront costs of installation and potential ongoing higher energy bills on a low carbon heating system.

Options such as non-repayable grants and council tax rebates are popular with consumers as a way of driving that change, and further consideration should be given to what sort of payments may drive consumer change to fast track our journey to net zero, while providing the demand for the good jobs the targets have the potential to create.

2. How should the Scottish Government's budget address the different impacts of the pandemic across age, income and education groups and across places?

There is clear evidence that the pandemic has exacerbated pre-existing inequalities in Scotland, evidence from the CAB network also shows the impact of Covid and associated lockdowns spread across demographics.

Over the course of the pandemic we observed that new clients – people using the CAB network for the first time - have had a different demographic profile compared to more regular CAB clients. These new clients are more likely to be in employment (26% as opposed to 16%), younger (33% under 35 compared to 22% repeat clients), and living in the least deprived Scottish Index of Multiple Deprivation areas.

That shows the extent of the impact the virus has had and the need for a strong safety net for people going forward. We would argue that the committee and budget should recognise that every citizen in the country should be supported to participate in, benefit from, and contribute towards a growing economy, and to focus on measures that prevent people falling into poverty and give people more spending power, particularly those on lower incomes and newly indebted.

While our own network data shows this crisis has affected people across demographics, we believe the starting point for inclusive recovery needs to be ensuring the most vulnerable are protected, and not caught in an increasing cost of living crisis.

3. In 2022-23, it is likely that there will be reduced levels of available Covid-related financial support for

the public and private sector. Given this, what should be the priorities for the Scottish Government's budget?

Citizens Advice Scotland would make the case for advice provision to be protected and, if possible, enhanced as a preventative measure that reduces expenditure elsewhere in the public sector. In the last year we have seen increased demand on our services, helping over 165,000 people with almost 1 million issues, and over 2.5million people checking our online advice.

The value of that advice should not be underestimated when it comes to setting future budgets. Last year we unlocked £170million for people in client financial gains through things like social security payments, employment entitlements, lower bills and debt reductions. That works out to a £16 return for every £1 invested in core advice services.

Beyond that, independent, external analysis of our advice (available at https://www.cas.org.uk/system/files/publications/economic_value_of_advice_report.pdf) shows that the network is worth up to £245million to Scotland, saving further public services like our NHS millions of pounds by solving problems for people before the escalate to the point where health our social services are required.

When someone gets advice from a CAB and has their problem solved they avoid further adverse consequences. For example someone who has their income maximised and no longer has to choose between heating their home and buying food avoids ill health consequences as a result.

In addition to support for independent advice provision, the Scottish Government's budget should prioritise financial support for those who have been hardest hit economically by the pandemic – both those who have seen their circumstances change dramatically, and those who were already struggling and now face even more difficulties.

The real economic impact of Covid-19 will only reveal itself in the months following the ending of furlough, the closing of payment support measures and the removal of the £20 per week increase to Universal Credit. It is widely predicted the impact will be felt well into fiscal year 2022/23 and the Scottish Government budget can and should play a role in helping those suffering a Covid financial hangover.

4. How should the Scottish Government's budget address the risks arising from the level and rate of recovery from the pandemic in Scotland relative to the rest of the UK?

There is an obvious risk that if Scotland's economy does not recover as quickly as the rest of the UK – which is possible given the large roles of seasonal sectors such as tourism in the Scottish economy – that less revenue will be available for public services and social security spending.

We would make the case for funding on preventative measures to focus on inclusive economic growth as a way of mitigating that risk, recognising that every citizen is a potential consumer who will play a role in economic growth, and building that recovery from the ground up.

5. How has the Fiscal Framework worked in managing the response to the crisis?

The response of both the Scottish and UK governments to the crisis was positive in terms of getting support to citizens in a variety of ways quickly – whether that was increasing the value and use of Universal Credit, the furlough scheme, or wider use of Council Tax Reduction and Scottish Welfare Fund grants.

6. How should learnings from the pandemic inform the forthcoming review of the Fiscal Framework?

While the review of the Fiscal Framework is a macro debate outwith the policy expertise of Citizens Advice Scotland, we would encourage the review to keep in mind the principles of inclusive growth we have outlined in this submission – namely that every citizen is a consumer able to contribute to economic growth if they have the spending power, which should in turn lead to growing revenue for public services.

Submission from Alcohol Focus Scotland

1. How should the Scottish Government's budget for 2022-23 address the need for a fair and equal recovery from the Covid crisis?

Summary

Adopting a preventative approach to public health has never been as important as now in the wake of the pandemic.

We must take steps to reduce the avoidable human and economic costs of alcohol harm to Scotland, estimated at £3.6bn each year.

The burden of alcohol harm falls most on those in our most deprived communities, where rates of alcohol-specific deaths and alcohol-related hospital stays are eight times higher than in the most affluent areas

International evidence is clear that increasing the price of alcohol, reducing its availability and restricting marketing are the ‘best buys’ in reducing alcohol harm. Increased investment in recovery-oriented treatment and support for those already experiencing alcohol problems is also required. As with drugs, people have both a need for and a right to such support.

Alcohol consumption in Scotland prior to COVID-19 was already at very high levels, with enough alcohol sold for every drinker in Scotland to exceed the Chief Medical Officers’ low-risk drinking guideline by 54% on every week of the year.

COVID-19 and the associated restrictions have polarised drinking patterns. Increases in high-risk and harmful drinking during the pandemic has been observed most for those who were already drinking more heavily and with lower socio- economic status. This could further increase inequalities.

There is an opportunity to re-establish a Public Health Supplement, or to establish a new Alcohol Harm Prevention Tax which would apply to all alcohol sold by retailers in the off trade. This would generate much-needed funds for local prevention, treatment and care and enforcement activity, to reduce alcohol harm.

Every Scot has the right to health and the Scottish Budget should be based on protecting, promoting and fulfilling human rights.

In this, the tenth anniversary year of the Christie Commission, prevention has never been more important both in terms of improving the health and wellbeing of the nation and in terms of optimising limited public resources. Alcohol claims the lives of 3,700 Scots a year and blights the lives of thousands more (1). Alcohol harm is estimated to cost Scotland £3.6bn each year, including almost £500 million a year in health and social care costs (2).

For example, recent research has identified that 16% of all ambulance callouts in 2019 were alcohol-related (3). This is an unacceptable and avoidable burden on or NHS.

The burden of alcohol harm falls disproportionately on those in our poorest communities, where rates of alcohol-specific death and alcohol-related hospital stays were eight times higher than in the most affluent areas before the crisis (4). The pandemic and the social restrictions which have accompanied it appear to be polarising drinking habits in Scotland, with a real risk of widening existing inequalities in alcohol harm. A survey conducted in June/July 2020 for Alcohol Focus Scotland found that although 13% of people had cut down or stopped drinking during the first national lockdown, one in five people were drinking more (5). Evidence from across the UK suggests an increase in high-risk and harmful drinking during the pandemic (6) (7), which has been observed most for those who were already drinking more heavily (5) (8) and those with lower socio-economic status (9). Anecdotal evidence from frontline organisations suggests significant increases in demand for support both from those worried about their own drinking as well as those concerned about a family member or friend’s drinking (10) (11) (12) (13).

Alcohol harm data recently published in England (not yet available in Scotland) has revealed an increase in alcohol-specific deaths during the pandemic, particularly for people living in the most deprived areas (with three times as many deaths in the most deprived areas compared to the least deprived) (8) (8). Driven by alcohol-related liver disease, this is consistent with increases in consumption for the heaviest drinkers in the most deprived areas. Public Health England note that “this may present a risk that alcohol harm persists or worsens among people already at risk of experiencing harm” (8).

There is a strong international evidence base that increasing the price of alcohol, reducing its availability and controlling how it is marketed can prevent alcohol harm (14). These policies cost little if anything to implement. Where investment is required, however, is in fulfilling people’s right to access the support and treatment they need to help them to recover when they experience an alcohol problem. We have recently seen a significant investment in drug treatment in response to the increasing numbers of people who are tragically losing their lives to drugs. This needs to be matched with investment in recovery-oriented alcohol services.

Alcohol consumption in Scotland prior to COVID-19 was already at very high levels, with enough alcohol sold for every drinker in Scotland to exceed the Chief Medical Officers’ low-risk drinking guideline by 54% on every week of the year (15).

According to the Scottish Health Survey 2019, 24% of Scottish adults are drinking at hazardous or harmful levels, and over 45,000 people may be dependent on alcohol (16).

However, even prior to COVID-19, the proportion of people with alcohol dependence who accessed specialist alcohol treatment was very low, at around one in four (17). As indicated above, the pandemic and associated social restrictions appear to be exacerbating alcohol problems for some. Calls to helplines and referrals to support services have increased, along with relapse rates for people in recovery from alcohol dependence (10) (11) (12) (13).

With Scotland facing “the prospect of an inevitable sharp rise in unemployment” (18), an increased need for treatment and support can also be expected into the longer term. Unemployment is a key economic stressor that can worsen patterns of alcohol consumption and attributable harm, and the impact of unemployment on alcohol consumption and alcohol-related health problems is greater during economic crises (19). Greater impact is experienced by certain groups, with men, those aged 25-34 and 45-59, and those with low educational levels disproportionately affected (19).

Financial insecurity has already been driving increased consumption during the pandemic in the UK, especially for the most disadvantaged groups (20) (21).

The Scottish Government has an opportunity to safeguard lives over the next decade by investing in services and support for people at risk of alcohol problems now, in line with its Rights, Respect and Recovery strategy for substance misuse and the 2018 Alcohol Framework. Effective treatment and support can prevent episodic problems becoming life threatening and ensure communities are not further affected by alcohol.

Alcohol Focus Scotland believes that the Scottish Government should use its fiscal powers to raise revenue from the sale of alcohol to support the COVID-19 recovery and fund public services (making the ‘polluter pay’), including improved recovery-oriented services. The funds raised would help offset the significant costs to the public sector of dealing with the consequences of alcohol harm. Alcohol harm costs an estimated £3.6 billion per year (2). This includes an estimated loss of £865 million to the Scottish economy’s productive capacity (due to presenteeism, absenteeism, unemployment and premature alcohol-related mortality), £268 million in health care costs, £230 million in social care costs, and £727 million for alcohol-specific offences and crimes.

The Scottish Government’s devolved and local tax powers provide two mechanisms through which those who profit from the sale of alcohol can be made to contribute towards alcohol-related harm costs and preventative action.

- A public health supplement to non-domestic (business) rates, applied to retailers licensed to sell alcohol and linked to volume of sales
- The creation of a new local public health tax that applies a levy to the sale of alcohol in the off trade

Revenues would be levied, collected and spent by local government on mitigating the wide-ranging social costs associated with alcohol use, and could include local preventative and enforcement activities.

The first mechanism, that of a public health supplement, was previously employed by the Scottish Government between 21 April 2012 and 31 March 2015, in order “to address the health and social problems associated with alcohol and tobacco use" and to generate income for preventive-spending measures (22). The supplement (9.3 p per pound of rateable value in 2012-13 and 13p per pound in 2013-14 and 2014-15) applied to retailers licensed to sell alcohol and registered to sell 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. The supplement was successful in raising significant revenue of £95.9m over its 3-year duration (23).

Alternatively, a new local alcohol harm prevention tax could apply specifically to alcohol retailers and be linked to the volume of pure alcohol sales rather than to rateable value. This would facilitate even greater generation of income than the previous supplement, creating the means to claim a proportion of the increased revenue that off-trade alcohol retailers have likely experienced as a result of the implementation of minimum unit pricing (MUP) since 2018 (24) and on-trade COVID-19 restrictions (25). For example, off-trade sales increased by 28% in Scotland between March and July 2020 (26). Linking the tax to the amount of pure alcohol rather to the rateable value would more directly relate the tax to the harm caused.

It is reasonable to expect that some of the costs of this tax would be passed on to the consumer. As price is a key driver of alcohol consumption (27), this could provide an added benefit of contributing to reduced consumption. Improving the health of the population would also increase economic growth.

To ensure a fair and equal recovery from the COVID crisis, AFS would recommend using human rights to create and scrutinise Scotland's national budget. The Scottish budget should promote, protect and fulfil our human rights, including our right to health (28). We refer the Committee to the briefing papers produced by the Scottish Human Rights Consortium which set out the human rights principles and standards that should shape budget goals and processes, and provide a detailed set of practical questions and considerations to help assess budget decisions (29).

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Submission from Age Scotland

1. How should the Scottish Government's budget for 2022- 23 address the need for a fair and equal recovery from the Covid crisis?

The economic impact of the coronavirus pandemic has been profound and will be long-lasting. The Scottish Government's Budget for 2022-23 must ensure all groups of society, including older people, are involved in the economic recovery from the pandemic. The Budget must also ensure Scotland is prepared to meet the future needs of our ageing population.

The Budget for 2022-23 must prioritise efforts to reduce and tackle pre-existing inequalities in Scottish society. Covid-19 has had an unequal impact on the population, with people living in the most deprived areas more likely to die from the virus than those in least deprived areas. With the gap between healthy life expectancy for men and women in the most and least deprived areas at 25.1 years and 21.5 years respectively, there must be long-term investment in preventing ill health and tackling poverty. This is particularly the case as these figures don't take into account the impact of the pandemic which will almost certainly exacerbate this issue in the next few years.

Fuel Poverty:

With the pandemic entrenching existing inequalities, tackling pensioner poverty will need to be a priority. The Scottish Government's Budget should include measures to assist the 150,000 Scottish pensioners who are living in relative poverty. Even before the pandemic, fuel poverty impacted around 1 in 3 older households, roughly 222,840 households. It is likely that the need to stay at home during lockdowns and shielding may have pushed more people into fuel poverty.

Age Scotland's Big Survey, which 3,562 people over the age of 50 responded to, found that energy bills were by far the greatest financial cause for concern, mentioned by 82% of respondents. In addition, two thirds of respondents (67%) said that the requirement to stay at home over the last year had resulted in higher home energy bills than previous years, with 13% struggling to pay increased bills and 38% taking measures to use less energy. The Scottish Government should provide more funding to energy efficiency schemes to help support homeowners to drive down domestic energy costs and protect the environment. The organisations and schemes available to help should be widely publicised in an accessible long-term national campaign across different platforms as well in a variety of languages in order to be accessible as possible.

Health and social care:

Health and social care services have faced immense pressures since the start of the pandemic. However, many people may have been reluctant to seek medical assistance due to public health restrictions. These restrictions, combined with the disruption of medical services as priorities shifted during the early stages of the pandemic, have led to later diagnosis and treatment in some cases and a backlog of health operations and appointments.

Age Scotland's Big Survey found almost two thirds of respondents reported they had been less active since the start of the pandemic and around half were worried they'd lost strength and mobility due to spending more time at home.
Deconditioning may result in loss of muscle strength, balance and overall mobility which could leave people more vulnerable to falls and more likely to require social care support.

Too often social care has been overshadowed by the NHS in terms of funding, but the two work together in tandem. The National Care Service will see social care treated as an investment in the nation. A National Care Service should also better support unpaid carers, who go above and beyond in their caring roles and are often relied on to keep the system afloat.

Loneliness and social isolation:

Our research has also found that around 218,000 older people in Scotland feel lonely most or all of the time. Chronic loneliness can significantly raise an older person's risk of heart disease, dementia, and depression. While Government commitments to tackle loneliness and social isolation, including the £10m Tackling Loneliness Fund, are welcome, efforts to reduce loneliness must be regarded as an investment in preventative measures.

With the number of over 65s in Scotland increasing by 256,000 in the last 20 years, the health, social care and housing needs of Scotland's ageing population must be met in the Scottish Government's Budget. Scotland's ageing population will, on average, be spending a greater proportion of their life in poor health. Our health and social care services must adapt to enable more people to live independently and well for as long as possible as they grow older. Implementing measures to help older people stay well for longer will improve quality of life immeasurably and are a valuable investment rather than a cost.

2. How should the Scottish Government's budget address the different impacts of the pandemic across age, income and education groups and across places?

Covid-19 has had a devastating impact on the health and wellbeing of older people in Scotland, demonstrated by the fact that almost 90% of deaths have been among those over the age of 65. The challenges older people have faced since March 2020 have been considerable and wide reaching, including the level of loneliness, particularly for those who shielded or live alone.

We consider the pandemic to have intensified ageism across our society. Ageist attitudes towards older people have been prevalent through the past year, whether that be through comments about their "expendability" or concerns about access to medical treatment. It is worth noting that ageism affects people of all ages, and there has been similar castigating of young people as Covid-19 "super-spreaders". The

Scottish Government should be mindful about the negative impact of narratives focused on intergenerational conflict and strive to avoid these. The Budget should not disadvantage any one group or encourage feelings of hostility towards them.

Housing:

Central to addressing the impacts of Covid-19 within the next Scottish Budget, is improving the access for older people to live within their homes, with the associated support to ensure they are warm, affordable and safe to live in independently for as long as possible. Fundamentally one of the core issues that must be addressed here, is appropriately resourcing funding to local authority services to facilitate this, whether through Care and Repair Services, energy support schemes or local authority led housing provision within the community.

Looking forward, funding to local authorities will remain as equally important, specifically for planning and building departments, to ensure they can appropriately plan and develop new places and enhance existing community structures to ensure core placemaking principles, such as 'twenty minute neighbourhoods' and the 'Place Principle' are adopted. Placemaking initiatives such as these will help ensure communities are well connected, as well as providing local services which will ultimately help older people to live longer independently.

Older Workers:

In common with younger people, older workers have been impacted by the pandemic. Research by the Institute of Fiscal Studies and the Centre for Ageing Better has found that workers over 65 were 40% more likely to be furloughed in late April 2021 than those in their 40s. As the furlough scheme comes to an end, there could be a sharp rise in the number of older jobseekers, while others are forced to retire earlier than planned with insufficient pension savings.

A third of the Scottish workforce are now over 50 and there are twice as many over 65s in employment in Scotland today compared to 10 years ago. This number is set to rise as changes to state pension age make working beyond 65 more common. However, older workers who lose their jobs often find it difficult to secure a new job, or a role at a similar level. This puts them in a vulnerable position as they approach retirement and could mean they end up living for longer with a lower income, contributing to levels of pensioner poverty. The budget should seek to ensure that support for older workers are similarly considered as we recover from the impact of Covid-19.

Digital Exclusion

Although the pandemic has led many of us to connect in different ways with family and friends using platforms such as Zoom, not everyone is online. For the half million over 60s without the internet the Scottish Government should be mindful about creating inequality stemming from the reliance on digital means of providing services in the upcoming Budget. This is also a particular issue for rural communities where connectivity is poorer.

Submission from Child Poverty Action Group in Scotland

1. How should the Scottish Government's budget for 2022-23 address the need for a fair and equal recovery from the Covid crisis?

In order to address the need for a fair and equal recovery from the Covid crisis, Scottish Government should:

- Double the value of the Scottish child payment in this budget.
- Invest in wider policies to tackle child poverty including childcare, housing and fair employment.
- Put reducing child poverty at the heart of the Scottish budget process. A goal of this and every budget should be to resource policies that will achieve the targets in the Child Poverty (Scotland)) Act.

Even before the COVID 19 crisis around one in four (260,000) of children in Scotland were living in poverty, according to official government statistics.[1] The pandemic has hit low income families with children disproportionately hard, deepening poverty and dragging more families into severe financial insecurity. This budget is an opportunity for Scottish Government to put the 'national mission'[2] to reduce child poverty at the heart of the budget process. A goal of this and every budget must be to resource policies that will achieve the targets in the Child Poverty (Scotland) Act 2017.

Addressing child poverty is necessary if recovery from the pandemic is to be sustainable. Analysis for CPAG in 2013 estimated that child poverty cost the UK at least £29 billion a year, with more recent estimates that all poverty results in additional public spending of £69 billion a year, or 20% of the relevant service areas: health; education; justice; adult and children social services and housing.[3] Furthermore, children who grow up in poverty are more likely to experience chronic ill health, poor mental health, or behavioural and emotional problems, and do less well at school than their more affluent peers.[4] [5]This highlights

[1] https://www.gov.scot/policies/poverty-and-social-justice/child-poverty/
[2] https://www.gov.scot/publications/tacking-poverty-debate-social-justice-secretarys-speech/ "The eradication of poverty and building a fairer more equal country must be a national mission for government, for our parliament and for our society."
[3] https://www.jrf.org.uk/report/counting-cost-uk-poverty
[4] https://www.pure.ed.ac.uk/ws/portalfiles/portal/24620945/CRFR_briefing_82_Treanor.pdf
[5] https://cpag.org.uk/scotland/child-poverty/facts

that failure to address rising poverty will not only have a long term impact on fairness and equality, it will have a devastating impact on individual children and will also be damaging to public finances as a whole.

Doubling the Scottish Child Payment

The introduction of the Scottish child payment for eligible children under six at the beginning of 2021 has already put much needed money into some low income family pockets. Existing commitments to roll out the payment to all eligible children under 16 by the end of 2022 and to double its value (from £10 per week per child to £20) are very welcome, as is the delivery of interim payments to free school meal entitled school aged children to partially bridge the gap to full roll out. The Scottish child payment has the potential to play a key role in ensuring a fair and equal recovery for children and families across Scotland.

However, unless the commitment to double the payment is accelerated the evidence[6] is clear that statutory targets[7] to reduce child poverty by 2023/24 will not be met, undermining a fair and equal recovery from the Covid crisis. The top priority in this year's budget process must therefore be a doubling of the payment, ensuring that low-income households receive at least £20 per child per week from April 2022. Even in the current challenging environment and despite planned UK government cuts to universal credit, we, along with other independent experts,[8] believe meeting the child poverty targets is possible with the powers that the Scottish Government currently holds. The evidence is clear that to achieve this doubling the child payment needs to take place in the coming year, keeping open the possibility of further additional investment if required, in 2023/24 in order to meet the interim statutory target.[9]

Early additional investment in the Scottish child payment will not only provide vital support for individual children and families, it will help build a fair economic recovery from the pandemic, as hard up families spend any additional income in their local economy. The Scottish Government's own Business and Regulatory Impact Assessment[10] of the payment concludes that businesses will benefit from the payment as it is likely the funds will be used on goods and services. Early additional investment in the child payment will also allow the impact of the payment to be evaluated, and give time for further additional investment, or other policies changes, if they are needed to meet the interim targets.

[6] Joseph Rowntree Foundation (2021) https://www.jrf.org.uk/report/turning-tide-child-poverty-scotland
[7] https://www.legislation.gov.uk/asp/2017/6/crossheading/targets-relating-to-child-poverty/enacted
[8] E.g Fraser of Allander Institute (March 2021) https://fraserofallander.org/poverty-and-inequality-looking-pre-and-post-pandemic/ "The good news is that, based on the assumption of broad economic recovery over the next few years, our analysis shows that meeting these targets is possible with the powers that the Scottish Government currently hold."
[9] Modelling from the Fraser of Allander Institute has shown that the interim target for 2023/24 could be met using the Scottish child payment alone, although a further doubling to £40 per week would be required https://fraserofallander.org/mission-not-impossible-how-ambitious-are-the-scottish-governments-child-poverty-targets/
[10] https://www.gov.scot/publications/scottish-child-payment-impact-assessments-bria/pages/10/

The commitment to deliver payments for 6 to 16 year olds entitled to free school meals to bridge the gap to full roll out of the Scottish child payment is hugely welcome. However not all children who will become eligible for the Scottish child payment will, as it stands, benefit from these interim payments. This is because eligibility criteria for free school meals is far narrower than for the new child payment. An estimated 125,000 children are missing out on the interim payments.[11] The straightforward way to address this gap would be to extend entitlement to free school meals, and therefore the interim payments, to all children in families in receipt of universal credit or equivalent legacy benefit. The budget should make provision to fully resource such an immediate extension This would have the added benefit of improving access to healthy food at school for pupils from low income working families who are currently not entitled to free school meals.

Funding for Wider Measures to Meet Child Poverty Targets

Wider action across government is required, building on the foundation which the Scottish child payment provides, in order to meet the 2030 child poverty targets. The expansion of childcare services in Scotland is welcome. It is vital that the expansion delivers high quality services that improve child development and outcomes, as well as enabling parents to work the hours they require. However, there is still a lack of affordable childcare with UK parents facing the highest childcare costs in Europe.[12] Real gaps exist, particularly for older children, children with disabilities and where parents work atypical hours. Low-paid childcare workers are often also parents living in poverty. This budget should prioritise investment in childcare to ensure childcare policies contribute to reducing child poverty by enhancing children's experiences, removing barriers to work and improving wages and conditions of those who deliver the service. Acting on the recommendations of the Social Renewal Advisory Board and the National Advisory Council on Women and Girls, Scottish Government should, at the very least, extend entitlement to 50 hours per week for all children between six months and five years old at the earliest opportunity.

The level of paid work in a family is a key factor in providing protection from poverty. In a family where one adult works full time and one part time, the risk of child poverty is 7%, compared to 40% where there is only part time employment.[13] Yet 68% of children in poverty live in households where one, or both, parents are working. There is also conclusive evidence that child poverty, gender and disability are inextricably linked.[14] Analysis suggests that removing barriers to work for mothers and for parents affected by disability, and tackling the labour market inequality they face, is necessary to address child poverty.

Lack of suitable housing has a severe impact on families on low incomes who struggle to pay rising costs. Reduced support for housing costs within the UK social

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[11] CPAG internal analysis
[12] https://www.weforum.org/agenda/2019/04/these-countries-have-the-most-expensive-childcare/
[13] https://www.gov.scot/binaries/content/documents/govscot/publications/statistics/2020/02/additional-child-poverty-statistics-2020/documents/supplementary-child-poverty-tables---poverty-and-income-inequality-in-scotland-2016-19/supplementary-child-poverty-tables---poverty-and-income-inequality-in-scotland-2016-19/govscot%3Adocument/Supplementary%2Btables%2B-%2Bchild%2Bpoverty%2B-%2Bfinal%2Btable.xlsx
[14] https://www.gov.scot/publications/poverty-and-income-inequality-in-scotland-2017-20/

security system leaves many families with a shortfall which they must cover from other means, including benefits not intended for housing costs. This can leave families with little or nothing to live on, pushing them into deeper poverty. The Scottish budget must invest to ensure an adequate supply of affordable, secure, good quality family housing as well as ensure funds are available to plug the gaps in the current social security system.

This year's budget must include appropriate funding for action on childcare, housing and employment in order to ensure a fair and equal recovery.

2. How should the Scottish Government's budget address the different impacts of the pandemic across age, income and education groups and across places?

Low income families with children have been particularly hard hit by the pandemic and it economic consequences. Analysis by IPPR Scotland found nearly half (49 per cent) of households with dependent children in Scotland were in the two most serious categories of financial stress – 'in serious financial difficulty' or 'struggling to make ends meet'. This compares to just under one in three (30 per cent) of all households in Scotland reporting the same levels of financial stress, itself a shocking figure[15]. In order to address the particularly acute impact on families, Scottish Government should:

- Double the Scottish child payment to ensure families across Scotland are able to give their children the best start.
- Continue to work to remove financial barriers to education.
- Address labour market inequality and barriers to work, especially for mothers and parents affected by disability.

The implications for different groups are stark. Even before the pandemic child poverty was rising in every local authority area in Scotland. End Child Poverty have estimated the rate of child poverty in each local authority.[16] This data shows that although rates of child poverty vary across Scotland, rates are rising everywhere and each community is becoming increasingly affected by poverty. Families across Scotland are facing hardship and so by doubling the Scottish child payment in this budget the government would ensure families who need it most have access to the resources they need wherever they live.

Evidence from our Cost of the School Day project[17] shows that charging for curriculum materials, lack of digital devices and connectivity, the cost of school trips, uniform policies, transport and school meal costs continue to exclude young people from learning opportunities and heap additional pressure on already inadequate

[15] https://www.ippr.org/blog/covid-19-how-are-families-with-children-faring-so-far
[16] http://www.endchildpoverty.org.uk/wp-content/uploads/2021/05/ECP-Scotland-release-FINAL.docx
[17] https://cpag.org.uk/cost-of-the-school-day

family budgets.[18] The pandemic has thrown into even sharper relief how vital a laptop or tablet, and internet connectivity, are for learning. Scottish Government has already taken much needed action to address these barriers, this budget must include sufficient funding to deliver on the commitment made and provide these resources for children.

This budget should also support investment in advice workers in schools across Scotland, drawing on the successes and financial gains of work in Dundee, Glasgow and Edinburgh. This work supports low income families to access their full entitlement and improves the take up of benefits.

Women are primary carers for children and are bearing the brunt of the pandemic economically. Women and children's poverty is inextricably linked with, for example, children in single parent (90% of whom are women) households at significantly greater risk of poverty.[19] Evidence from Close the Gap finds that job disruption will disproportionately impact women because men and women tend to do different types of work, and that those in low-paid jobs will be particularly affected, placing them and their children at greater risk of poverty.[20] Women are disproportionately affected by the need for more unpaid care due to ongoing periods of isolation and children being sent home from school, impacting their ability to do paid work, and are less likely to do a job that can be done from home, creating increased risk to their job retention and financial security. Finally women, particularly BME women, young women and women on zero-hour contracts, are more likely to work in a sector with high levels of redundancies.

As such, an understanding of those areas of the labour market that are associated with low household incomes and risk of child poverty needs to inform:

- Decisions relating to prioritizing business support and re-opening the economy. The potential to protect and enhance incomes for parents on low earnings must be a key factor in all decisions.
- Decisions relating to prioritising child care and early learning places as lockdown is lifted.

With ongoing uncertainty around education with children being repeatedly asked to isolate, millions of working parents, mostly mothers, are balancing a paid job with uncertainty around their children's care and education. ONS estimate that if households with children aged under 16 years had to make changes to their working arrangements to provide childcare this could affect up to 14% of the UK workforce, or one in seven workers. [21] Women are disproportionately likely to be providing primary care to children, and more likely to be working for low pay in retail, caring, catering, or cleaning jobs. Action to support economic recovery and protect and support jobs will need to prioritise increasing the security and adequacy of women's

[18] https://cpag.org.uk/sites/default/files/files/policypost/Cost_of_Learning_in_Lockdown_2021_Scotland_findings.pdf8
[19] https://www.gov.scot/publications/poverty-income-inequality-scotland-2015-18/
[20] https://www.closethegap.org.uk/news/blog/disproportionate-disruption-new-report-from-close-the-gap-highlights-women-are-more-likely/
[21] https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/conditionsanddiseases/articles/coronavirusandemploymentforparentsintheuk/octobertodecember2019

earnings in these sectors.

Analysis by JRF in 2018 highlighted how gender and disability create barriers to employment that are “intrinsically linked to child poverty.” Such barriers are likely to be exacerbated as unemployment rises. The need to focus efforts on removing barriers for parents at particular risk of poverty is greater than ever.

When identifying how to target economic support and promote employment growth it may be helpful to identify the characteristics of jobs that have provided financial resilience for families. It will also be important to understand how lockdown has impacted on different groups. For example, have parts of the labour market previously less associated with child poverty become more likely to be low paid and insecure? Finally, opportunities for providing fiscal stimulus should be evaluated for their impact on child poverty.

3. In 2022-23, it is likely that there will be reduced levels of available Covid-related financial support for the public and private sector. Given this, what should be the priorities for the Scottish government’s budget?

In May 2020 IPPR estimated that 750,000 employees would be employed on the jobs retention scheme and that 150,000 of those jobs would be lost.[22] With the job retention scheme ending it is likely there will be many more redundancies and increased reliance on social security. Children who live in households in receipt of means-tested benefits are three times more likely to live in poverty that those not in receipt.

In light of this, the Scottish Government’s priority should be ensuring low income families have the support they need to give their children a decent start in life. Within the powers the Scottish Government currently has, the most obvious route for ensuring that these families are supported is doubling the value of the Scottish child payment in this year’s budget and expanding eligibility for the interim payment by expanding free school meal eligibility to all pupils in families in receipt of universal credit or equivalent legacy benefits.

As government financial support is retracted, the quality of work and pay conditions will become even more important for low income families. Alongside investing in the Scottish child payment, this budget should encourage the use of public procurement and public body wage setting powers to drive improvements in quality of work, including addressing low pay, particularly in female dominated sectors such as social care and child care. Companies that access public money should be required to increase the quality of work they offer, as well as improve the support they provide to

[22] https://www.ippr.org/news-and-media/press-releases/revealed-one-in-three-people-in-scotland-s-workforce-could-be-furloughed-or-made-unemployed-over-coming-months

those with caring responsibilities, while also strengthening voluntary accreditation initiatives.[23]

4. How should the Scottish Government budget in 2022-23 address the risks arising from the level and rate of recovery from the pandemic in Scotland relative to the rest of the UK? Please consider any impact on devolved tax receipts and social security benefits in your answer.

In order to support children and families in Scotland as we emerge from the pandemic, all of Scotland's policy levers, tax and spending powers must be used to ensure child poverty targets are met and families are kept afloat. There must be a willingness to use Scotland's tax powers to ensure the nation's income and wealth is harnessed to fund the social security and infrastructure needed to prevent and reduce child poverty, and to ensure a fair and equal recovery from the pandemic. In order to do this, Scottish Government should undertake and publish a full assessment of Scottish tax powers and their potential to prevent and reduce child poverty.

The impact of the pandemic has the potential to cause a rise in unemployment in Scotland. In due course this may have an impact on Scottish tax receipts. Doubling the value of the Scottish child payment in this budget will ensure that low income families have additional cash in their pockets which they are likely to spend in their local areas. An important role for social security such as the Scottish child payment in an economic recession is as an effective means of fiscal stimulus. Providing additional cash support to low income families increases level of demand in local economies as they are far more likely than better off households to spend any additional income than save it.[24]

The UK Government has announced the end of the £20 a week (£1,040) a year uplift to the standard allowance within universal credit and tax credits, introduced in response to the Covid 19 pandemic, this loss of income will plunge an estimated 22 000 children into poverty in Scotland alone.[25] Whilst every effort must be made to persuade the UK government to reverse this decision, the Scottish Government must ensure that children in Scotland are protected from this loss of income. This makes doubling the value of the Scottish child payment in this year's budget more important still.

[23] https://www.gov.scot/publications/towards-robust-resilient-wellbeing-economy-scotland-report-advisory-group-economic-recovery/
[24] https://www.ifs.org.uk/economic_review/fp271.pdf
[25] CPAG internal analysis

Submission from Scottish Property Federation

1. How should the Scottish Government's budget for 2022-23 address the need for a fair and equal recovery from the Covid crisis?

In relation to the Coronavirus Acts, the SPF is concerned that our well-respected property legal system is being undermined by changes to the landlord-tenant relationship and this could create a barrier to much needed future investment. It is therefore critical that any extensions of the provisions in the Coronavirus Acts that create an unbalanced relationship between landlords and tenants are not continued for any longer than necessary.

The Scottish real estate industry creates a roof over the head of our economy and our communities. The sector contributes to securing economic recovery and jobs and offers employment opportunities across a vast range of skills and professions. The property industry also directly supports our higher education institutions through supplying much needed quality student accommodation. Yet the industry needs a fair and effective business environment in which to invest, develop and support the occupation of commercial, residential, and public buildings and places.

The Scottish real estate sector is by its nature wide-ranging and not all development projects or sectors have been eligible for the Government's fiscal support through the various funds and programmes.

Throughout the pandemic, the property industry has worked in collaboration with tenants struggling to pay their rent and service charges. A British Property Federation study of 16,320 retail, hospitality, and leisure property leases across the UK, found that 77% of rent owed from March 2020 has either been paid or an agreement reached on arrears including payments plans, waivers, and rent holidays and deferrals. This means that only 23% of rent owed since March 2020 remains unresolved, where property owners and tenants have not yet been able to agree how this debt should be managed. This includes a small minority of tenants (14%) who are currently refusing to speak with property owners, despite a proactive approach to reach an agreement.

Our members are clear that those tenants who can pay rent should do so, and those tenants who need support should be helped where a property owner has the means to do so.

2. How should the Scottish Government's budget address the different impacts of the pandemic across age, income and education groups and across places?

Provide additional resourcing for planning to support a flexible and efficient planning system to enable development and investment with effective collaboration between private, public and community stakeholders. Planning is instrumental in achieving national outcomes both directly and indirectly and balances the main drivers of the National Performance Framework. It is therefore important that the planning system is a dynamic enabler of development and investment. Planning and tax incentives to encourage mixed-use developments could support regeneration and help realise the ambition of 20-minute neighbourhoods.

Continue work to establish Green Ports and development zones to create places for employment in both rural and urban communities through targeted support for investment and jobs.

Develop a national strategy to fund education facilities and well distributed primary and secondary healthcare facilities to enable investment and new development. It is important to consider the implications of changing demographics within society and the implications for later life healthcare and the facilities that communities will require across all age ranges. In light of the COVID-19 pandemic, consideration should be given to investment in the centralisation of health care facilities and refocusing a level of care on better distributed local community facilities.

3. In 2022-23, it is likely that there will be reduced levels of available Covid-related financial support for the public and private sector. Given this, what should be the priorities for the Scottish Government’s budget?

Support new connections to the electricity grid: The electrification of heat and cooling in buildings, and of transport, will be critical to Scotland achieving net zero by 2045. To support this, the Scottish Government must prioritise the enhancement of Scotland’s electrical grid to enable it to meet the significant increase in demand that heat pumps and electric vehicle charging will cause in the near future. The SPF is already aware of projects that are threatened by the lack of capacity in the grid and the significant upfront costs involved in gaining a connection from Distribution Network Operators. We believe that there is a role for the Scottish Government in providing forward funding (through grants and loans) to ensure that the cost of connecting to the grid does not delay or prevent the provision of much needed new homes and commercial properties. Government intervention may also be important if costs are not to be passed onto the consumer/occupier of the property. The bottom line is that any investment in the electricity network will have a lasting and important impact on Scotland being able to achieve net zero.

Incentivise the improvement of inefficient buildings: The planned introduction of minimum energy efficiency regulations across all sectors of the built environment in Scotland will help to make existing buildings more efficient to operate. While increased efficiency may lead to lower energy prices for owners and tenants, there is a need for significant up-front investment, which could be preventative for property owners and small & medium businesses without support. In addition to regulations, the redevelopment of existing properties to meet higher energy efficiency targets should be incentivised through the property tax system. Discounts on business rates and LBTT should be investigated by the Scottish Government as it could help to make more efficient properties more attractive to potential buyers and tenants, which in turn could provide a return on the investment made to improve a property. Funding and tax support to encourage the adaption and repurposing of heritage buildings to help create great destinations and support the unique character of our towns and cities is also an important consideration.

Encourage investment into our high streets: The Scottish Government and the Scottish property industry must work together to ensure that empty premises on our high streets are not a lasting legacy of the pandemic. We would like to see key reforms to property taxation and a reduction or removal of charging empty property rates on shops and other business properties that often simply cannot be re-let due to wider economic condition. It is also vital that the Business Growth Accelerator is maintained to encourage redevelopment and to remove the risk of empty rates on speculative development. This is particularly important for the creation of non-traditional properties (such as laboratories) and to create the spaces needed to allow start-up companies to grow without having to relocate from Scotland.

Better resourcing of planning departments: In addition to reforms to the business rates system, we need an efficient and effective planning system, and an alignment of public and private capital to deliver infrastructure. Local authority planning departments have seen significant cuts to their budgets, which has had implications for the speed of processing applications and the ability for authorities to think and plan strategically. It is vital for our long-term recovery that local planning departments are properly funded and able to respond quicker to economic and market changes.

We believe strong collaboration with our industry will be needed more than ever in the wake of the pandemic, and to meet the huge challenges of addressing the climate emergency.

4. How should the Scottish Government's budget address the risks arising from the level and rate of recovery from the pandemic in Scotland relative to the rest of the UK?

Empty Property Rates: We remain concerned about the impact of empty rates on properties left vacant by the pandemic. As the UK and Scottish governments begin to withdraw their coronavirus support measures, we expect to see more high street casualties and further vacant properties. Empty property rates are acting as a tax on distressed assets and deters much-needed investment in struggling high streets across Scotland. In addition to empty rates, property owners face a number of other significant costs, including energy and maintenance costs, and it is therefore in their interests to find an occupier as soon as possible. However, with current economic conditions leading to low demand, especially in the retail sector, securing a new tenant is extremely challenging.

Non-domestic Rates Relief: We acknowledge and welcome the unprecedented level of government support provided to businesses generally during the pandemic emergency. The scale of support provided to businesses via the grants based on non-domestic rates eligibility and the speed with which this support was provided was hugely significant. While the country is now on a trajectory that will see restrictions eased indefinitely, it is important that the Scottish Government responds quickly with further support if any new restrictions are imposed. It should also be noted that some parts of the business community were not directly supported or were frustrated in their attempts to secure support.

Business Rates: It is important that Scotland adopts a revaluation cycle that more closely reflect the commercial property rental market of the day. Of the nominal rateable value across Scotland, the retail sector accounts for at least £ 1.6bn. The continuing pressures on the retail sector which are seeing larger properties made empty and often in administration, could have significant implications for the non-domestic rates revenue in Scotland in the next series of revaluations.

LBS: The Scottish Property Federation welcomes the Scottish Government's commitment to reduce the large business supplement over the course of the current parliament and is an important step towards meeting the Barclay Review's recommendations. However, a full realignment with the rest of the UK is needed to reduce the current disadvantage faced by some Scottish ratepayers in order to attract new large businesses to Scotland.

Land and Buildings Transactions Tax: The current LBTT rates and thresholds have remained unchanged since the tax was introduced in 2015. We believe that the tax should be reviewed to ensure that it does not prevent individuals or families from being able to move within the housing market depending on their individual circumstances. We are particularly concerned about the 10% tax band, and believe that its threshold should be increased to £ 500,000 (similar to that set by the UK Government) to reflect the pricing of relatively modest properties in our largest cities and their suburbs. There are also economic headwinds facing Scotland's economy in the months ahead, and it is important that the Scottish Government does not increase the LBTT burden on residential purchases and that it maintains a close watch on how wider economic factors are impacting on the market when deciding its LBTT rates and thresholds.

Scottish National Investment Bank: We would like to see the greater capitalisation of the Scottish National Investment Bank and more projects agreed to help recovery.

We consider that it is vital to establish key priorities for investment in both infrastructure and other development, that will underpin long-term sustainable economic and private sector growth.

5. How has the Fiscal Framework worked in managing the response to the crisis?

As stated above the Scottish real estate sector is by its nature wide-ranging and not all development projects or sectors have been eligible for the Government's fiscal support through the various funds and programmes.

During the first lockdown in March 2020, Scottish Government Guidance was to stop construction work with the exception of healthcare and educational projects. Building sites were effectively closed down for 15 weeks and contractors were able to put their employees on furlough. However, project completions were delayed, and additional construction and finance costs incurred by developers without any support.

Although the media have suggested an increase in residential property transactions, perhaps reflecting pent-up demand after the lockdown on house moves, there should be no doubting the impact of Covid-19 on the whole of the property sector.

Commercial property companies have seen their rental revenue denied and, in most cases, have sought to endure this drop in income without any level of support. Indeed, commercial landlords have offered significant support to their tenant customers. At the same time, they have faced the penalty of empty property rates despite financially supporting businesses during widespread market failure in the commercial property sector.

More broadly, the SPF has supported calls for a form of National Infrastructure Agency to co-ordinate and deliver key infrastructure that will enable development to come forward. The lack of a national infrastructure co-ordination agency is a real missed opportunity, especially given the experience of some of our members, for example in schools funding. This causes unnecessary and long-term delays to projects that would bring major economic benefit to Scotland as a whole. Our members are of the view that a National Infrastructure Agency is important to ensure that there is an accountable, fair, and transparent structure in place for the full co-ordination of diverse funding sources. This would cover funding across key agencies, utility providers, local authorities as well as other public bodies and arrangements for the funding where appropriate between public and private sectors.

6. How should learnings from the pandemic inform the forthcoming review of the Fiscal Framework?

Our members would like to work with the Scottish Government and Parliament to implement a cross-government and industry strategy to adopt a three-pronged approach to support the recovery of our built environment:

- Introduce measures to support new property development and the regeneration of existing buildings to be brought back into effective use.
- Deliver key infrastructure to drive new growth and accelerate change in the use and occupation of our built environment.
- Support for adaptation to sustainable energy supply and sustainable buildings in the property sector, to aid the achievement of a net-zero built environment.

As stated above the Scottish real estate industry offers employment opportunities across a vast range of skills and directly supports our world beating higher education institutions through supplying much needed quality student accommodation. Yet the industry needs a fair and effective business environment in which to invest, develop and support the occupation of commercial, residential, and public buildings and places. That is why we seek key reforms to property taxation and a reduction or removal of charging empty property rates on shops and other business properties that often simply cannot be re-let. We need an efficient and effective planning system, and an alignment of public and private capital to deliver infrastructure. We believe strong collaboration with our industry will be needed more than ever in the wake of the pandemic, and to meet the huge challenges of addressing the climate emergency.

As also stated above the SPF has supported calls for a form of National Infrastructure Agency to co-ordinate and deliver key infrastructure that will enable development to come forward. Attracting outside investment is going to be key to sustaining the property sector going forward. We advocate the closer alignment of private capital and government to deliver infrastructure, although, this will require a culture change in planning authorities in order to succeed.

We believe that Scotland could achieve a much more efficient and integrated property market data system to underpin property-based taxation. Currently the Scottish Assessors produce valuations on the NDR valuation roll, which will move to a three-yearly system. A separate transactions-based database of LBTT and ADS returns is retained by Revenue Scotland, including lease transactions. Indeed, Revenue Scotland are also responsible for enforcing three-yearly LBTT commercial leases reassessments by taxpayers. The retention of separate authorities to collect similar commercial rental information feels to us to be a missed opportunity for Scotland to find efficiencies in its taxation assessment and collection processes.

Governments at all levels will also need to adapt their approaches to raising tax revenue. We should anticipate a need for less focus on property-based taxation. Business rates are an obvious candidate for review, but also transaction-based taxes should be reconsidered. Inevitably, if we see reduced use and demand for commercial property then this will have an impact on its value, which in turn will have an effect on its rateable value.

Submission from Chartered Institute of Taxation and its Low Incomes Tax Reform Group

Executive Summary

The Chartered Institute of Taxation (CIOT) is the leading professional body in the UK for advisers dealing with all aspects of taxation. We are a charity and our primary purpose is to promote education in taxation with a key aim of achieving a more efficient and less complex tax system for all. We draw on the experience of our 19,000 members, and extensive volunteer network, in providing our response. Our comments and recommendations on tax issues are made solely in order to achieve this aim; we are a non-party-political organisation. In terms of this call for views therefore, we do not put forward suggestions of particular powers for devolution or specific policy proposals. Our concern is to ensure that key principles and issues are borne in mind when considering policies.

Prior to the coronavirus pandemic, the Scottish Government had been considering methods of improving the tax policy-making process and the legislative processes for taxes in Scotland. It will be necessary to see this work through to fruition in order to ensure that Scotland's tax system is in the best position possible to support its economic recovery. When making choices relating to tax policies in the context of the tax powers that Scotland has, it is important that the Scottish Government gives detailed consideration to interactions between Scottish tax policies (both national and local taxes) and those for reserved taxes (including the reserved aspects of income tax). In addition, consideration needs to be given to interactions between Scottish tax policies and Scottish social security policies, as well as between those policies and UK reserved social security policies.

Publishing a detailed analysis of impacts when tax policy is being developed and consulting on this would improve consideration of fairness and equality issues earlier in the process. The Government could also have a programme of reviewing whether assumptions made in evaluating impacts prove to be correct, or whether in fact there have been unintended consequences of a measure.

Introduction

We welcome the opportunity to offer our views in response to the Finance and Public Administration Committee's call for evidence on Scotland's public finances in 2022- 23 and the impact of coronavirus. These include those of our Low Incomes Tax Reform Group (LITRG). This forms part of the committee's pre-budget scrutiny, which aims, among other things, to improve transparency and increase public awareness of the Budget. We would be pleased to provide further detail if required.

Our stated objectives for the tax system include:

- A legislative process that translates policy intentions into statute accurately and effectively, without unintended consequences.

- Greater simplicity and clarity, so people can understand how much tax they should be paying and why.
- Greater certainty, so businesses and individuals can plan ahead with confidence.
- A fair balance between the powers of tax collectors and the rights of taxpayers (both represented and unrepresented).
- Responsive and competent tax administration, with a minimum of bureaucracy.

LITRG's seven principles for the tax system, as set out in its paper 'A better deal for the low-income taxpayer', (See https://www.litrg.org.uk/latest-news/reports/201204- better-deal-low-income-taxpayer) are:

- Clear and up to date
- Simple
- Equitable
- Just
- Accessible and responsive
- Joined up
- Inclusive

The coronavirus pandemic has required all of us to change how we live and work and is likely to have long-term economic effects for Scotland. We welcome the fact that the committee is considering different aspects of Scotland's recovery from the pandemic as part of its pre-budget scrutiny, and in particular how to ensure that it is fair and equal, taking account of the impacts of the pandemic on different groups, according to age, income, education and place.

In October 2020, with our 'sister' charity the Association of Taxation Technicians (ATT), we established a Joint Equality, Diversity and Inclusion (EDI) committee. The committee assists us in ensuring we have clear EDI values that can be demonstrated through our behaviours, actions and operations. Its remit includes not only EDI within our own organisations and the tax profession, but it is also starting to consider EDI issues around tax and related policy.

LITRG has done substantial work on tax and EDI matters over the last 23 years, producing its own reports, (Examples include 'Disability in Tax and Related Benefits',
December 2003, see https://www.litrg.org.uk/latest-news/reports/040115-disability-tax-and-related-benefits-case-modern-and-coherent-approach; 'Older people on low incomes – The case for tax reform', May 2007, see https://www.litrg.org.uk/latest-news/reports/070530-older-people-low-incomes-case-tax-reform and others.

LITRG's full reports and submissions archive can be found at https://www.litrg.org.uk/latest-news/reports and https://www.litrg.org.uk/latest-news/submissions) commenting on the UK and devolved governments' impact assessments and EDI action plans, and supporting taxpayers in an appeal against mandation of online filing for VAT on

EDI grounds. (LH Bishop Electric Company Ltd and others v HMRC [2013] UKFTT 522 (TC)).
Success in that appeal resulted in changes to the VAT Regulations to accommodate those digitally excluded by reason of age, disability or remote location and has influenced HMRC policy in its Making Tax Digital programme.

As a tax professional body, we do not have the expertise to comment upon all aspects covered by the inquiry. However, our members as tax advisers, in professional practices, commercial enterprises, public sector and charities have extensive anecdotal evidence of the impact of the pandemic on their clients and other people they deal with. LITRG also receives feedback from members of the public via its website contact facility, which often includes information on EDI-related matters (with older people, disabled people, carers and those with English as a second language sharing their experiences). Our comments are made on this basis.

1. How should the Scottish Government's budget for 2022-23 address the need for a fair and equal recovery from the Covid crisis?

Both the UK Government and the devolved governments have offered unprecedented levels of support for individuals and businesses, aimed at easing the economic impact of the self-isolation and social distancing measures required to shield the population – and particularly the most vulnerable – from the disease.

Although we offer comments on taxes, we do not provide views on the future required level of taxation. Nor do we comment on where the burden of taxation should fall. These are matters for politicians. We set out our objectives for the tax system above, and hence where our interests lie. Prior to the coronavirus pandemic, the Scottish Government had been considering methods of improving the tax policy- making process and the legislative processes for taxes in Scotland. It will be necessary to see this work through to fruition in order to ensure that Scotland's tax system is in the best position possible to support its economic recovery.

Whatever tax powers Scotland has and whatever policies are implemented in order to support the coronavirus recovery, it is essential that the Scottish tax system, its policy framework and the process for making tax legislation operate effectively and with credibility.

When making choices relating to tax policies in the context of the tax powers that Scotland has, it is important that the Scottish Government gives detailed consideration to interactions between Scottish tax policies (both national and local taxes) and those for reserved taxes (including the reserved aspects of income tax). In addition, consideration needs to be given to interactions between Scottish tax policies and Scottish social security policies, as well as between those policies and UK reserved social security policies.

2. How should the Scottish Government's budget address the different impacts of the pandemic across age, income and education groups and across places?

There has been a huge amount of research carried out into the different effects of the coronavirus pandemic, in terms of society and the economy. This has been done at both a UK-wide level (For example, both the Institute for Fiscal Studies (IFS) and Office for National Statistics (ONS) have carried out work at a UK-level: https://ifs.org.uk/coronavirus and https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/conditio nsanddiseases/publications?filter=article&filter=compendia) and a Scottish level. (For example, the Scottish Government has carried out a variety of work: https://nationalperformance.gov.scot/scotlands-wellbeing-impact-covid-19 and https://data.gov.scot/coronavirus-covid-19/index.html as has the Fraser of Allander Institute: https://fraserofallander.org/covid/). It may be helpful to think about which groups of society have been particularly badly affected by the pandemic, whether the Scottish Government has the appropriate policy levers (tax or otherwise) to address those impacts, and which combination of policy levers would be most appropriate to use, bearing in mind actions taken at a UK level and interactions with UK policies.

While mindful of the risk of over-generalising, the following general trends seem to have appeared:

Those in a more ‘longstanding’ working environment – whether employed or self-employed – have been better supported during the pandemic. This is because (albeit with some exceptions) if their circumstances have been adversely impacted by the pandemic they will have been entitled to UK government support through the Coronavirus Job Retention Scheme (CJRS) or Self-employment Income Support Scheme (SEISS).

Those in a more ‘fluid’ working environment – again, whether employed or self-employed – have been harder hit. For instance, the newly self-employed missed out on the first three SEISS grants, (they may however have qualified for support from the Scottish Government through the Newly Self-employed Hardship Fund) freelancers and those on short-term projects may have been ineligible for SEISS and similarly not furloughed by their ‘employer’. Other lower paid staff, without guaranteed hours in industries most harshly affected by the pandemic (for example, hospitality and non-essential retail), may have been made redundant, or simply not furloughed by their employer. (For example, there is no obligation on an employer to furlough a zero hours worker. The employer may simply have told the employee there is no work for them to do and so they would remain unpaid during that period).

Those in ‘intangible’ sectors such as professional services have been able to react more quickly through the ability to work from home. Many businesses are now adopting a more flexible way of working in whole or part as their new normal.

Those in ‘tangible’ sectors such as retail and hospitality have suffered from increased costs of personal protective equipment (PPE) and the need to enforce social distancing etc. With the likely exception of essential retail, these sectors will also have seen their income reduce (if not be extinguished), due to restrictions on customer numbers etc.

Some individuals have fallen through the gaps between coronavirus support schemes as a result of the failure to address openly and comprehensively the so-called ‘three person’ problem, whereby employed and self-employed individuals and essentially one person companies engaged in similar ways economically are taxed at quite different rates and in quite different ways. (The relevant tax powers are reserved to the UK Government). This is exacerbated by the fact that many people do not understand the importance of these differences in status – a sole-director company is not ‘self-employed’ for tax purposes, nor is a worker in the Construction Industry Scheme (CIS) necessarily ‘employed’ (even though they might suffer a deduction of tax at source). This is not a problem that is within the gift of the Scottish Government to address directly via tax policy, although it may be possible to use other policy levers to mitigate the issues noted in the paragraph above.

Acknowledging that the Scottish Government cannot resolve this issue on its own within current devolved powers, we note that the three person problem has had the following effects in the context of the coronavirus pandemic (as this could be a factor in policy-making):

Employment versus self-employment – the differential tax treatment (predominantly the incidence of employer National Insurance contributions on employers at 13.8%, but also larger employee NIC, as well as stricter rules on deductions for expenditure) is a motivating factor to be or to present oneself as self-employed. There is an even more perverse fiscal incentive for employers to seek to move the people they engage off-payroll into self-employment, to avoid employers’ National Insurance contributions (NIC) costs (and for larger employers, Apprenticeship Levy); there is increasingly broad anti-avoidance legislation to limit the effect of this, imposed at considerable compliance cost and complexity. But the more fluid nature of self-employment, or moving between employment and self-employment, has reduced or eliminated entitlement to either CJRS or SEISS. Similarly, those employers with staff on their payroll have suffered greater costs than those using self-employed contractors. (Since August 2020 the UK Government has not reimbursed the cost of employer NIC or pensions costs, and in some periods the employer has been required to reimburse some of the salary element, too. Not to mention the cost and complexity of undertaking CJRS claims). Had these long-standing differentials been addressed, the UK Government’s coronavirus support packages could have had a more comprehensive scope with fewer people falling through the gaps.

Unincorporated versus incorporated – similarly, there are advantages to incorporating a business, with it having previously been fairly standard tax planning for owner-directors to take a small salary, with the remainder of their income being paid as dividends. (In terms of how this affects tax revenues, a Scottish taxpayer who is either employed or self-employed pays Scottish income tax, which flows directly to the Scottish Government. Their NIC flows to the UK Treasury and benefits the Scottish Government indirectly through the block grant. A Scottish taxpayer who operates through a company as an owner-director as noted will likely pay no Scottish income tax but will pay UK income tax on their dividends; the company will pay UK corporation tax. The Scottish Government will benefit directly through the block grant). Again, engagers of personal services have been very influential in procuring this outcome by preferring to deal – and sometimes insisting on dealing – with incorporated businesses, including one-person companies. Notwithstanding proposals made by many representatives and professional bodies, this incentive created by the tax system resulted in many owner-directors being eligible for little or no coronavirus support.

The scope of income tax and NIC has also drawn attention. One example is that pensioners pay tax, but not NIC, on their employment / self-employment / pension incomes. As noted earlier, some pensioners may have become 'better off' during the pandemic (at least in relative financial terms) contributing to a sense of unfairness that they have been more lightly 'taxed' than those below pension age. We recognise that this is not a straightforward issue, in that pensioners will have paid NIC in the past, and that there are also other examples of financial returns not being subject to NIC, such as rental profits and investment returns.

The issues mentioned above are not new. However, previous attempts to more closely align the treatments have either tinkered around the edges (such as the changes to dividend taxation in April 2016) or have not been sustained (such as the 2017 UK Budget announcement to increase NIC for the self-employed, which was subsequently reversed). It is time that these issues were addressed with proper consultation, and we have called on the UK Government to do so.

There are other factors that the pandemic has brought into sharper focus:
The timeliness and quality of guidance from government sources – Good-quality guidance benefits all types of taxpayer (and also, we suggest, is of more significance than is often realised in deterring abuse and stretched interpretations of legislation). It is of particular importance to taxpayers who cannot afford independent bespoke advice, but who are exposed to complex issues around tax – and sometimes its interaction with credits or benefits – as a result of very low income, migration, or of life patterns or events such as childcare, divorce, redundancy or bereavement. It is key that:

Taxpayers are able to look at previous rules and versions of guidance. Specifically relating to the coronavirus pandemic, the Scottish Government has offered various support schemes for business, for which details are provided on the website FindBusinessSupport. (https://findbusinesssupport.gov.scot/) However, once schemes closed, the information surrounding them was removed, meaning that it is difficult for taxpayers to check that a claim for support was valid in accordance with the rules at the time.

Guidance should not be oversimplified to the extent that it ignores or glosses over some of the complexities of the tax system. Oversimplified guidance can be misleading and in some cases, result in taxpayers taking incorrect actions, because the guidance does not make it clear that there are other nuances to consider.

The coronavirus pandemic has also reinforced the need for joined-up guidance between departments, with LITRG having noted that many of those making contact via its website during the pandemic have been left confused about how all the types of support fit together. (See page 16 of ‘A better deal for the low-income taxpayer’ (full version): https://www.litrg.org.uk/latest-news/reports/201204-better-deal-low-income-taxpayer).

Interaction of taxation and benefits – Issues arise, for example, in connection with Universal Credit (UC), in particular when a claimant’s earnings increase. Assuming the claimant is a Scottish basic rate taxpayer and earns above the income tax personal allowance, an increase in earnings of £1,000 (gross) per year would result in an increase in household income of only £251 due to the taper applied to the UC claim, calculated thus:

£
Increased salary 1,000 Less: income tax (200) Less: NIC (120)
Increase in take home pay £680 Universal credit taper (63%)
(429) Actual increase in household income 251

This is akin to a ‘tax’ rate of nearly 75%. (For simplicity, this example uses a basic rate of 20% for income tax, on the basis that this is the taxpayer’s marginal rate of income tax. It also assumes that the no work allowance applies in UC or any work allowance is already used up against earnings.)

Other welfare benefits may also be reduced or lost, such as council tax support. There may also be a loss of passported benefits such as free school meals, and there may be an increase in other costs associated with working more hours. Thus, people on the lowest incomes often face higher marginal rates of tax, if loss of entitlements is included, than people at the higher or top end of the income spectrum.

This issue has to be seen in the context of the significant increases to the personal allowance by the UK Government in recent years and the introduction of the 19% rate band of Scottish income tax by the Scottish Government. For many years increasing the personal allowance was often seen as a way of helping the lowest paid. But for individuals on the lowest incomes, who pay no income tax due to the level of their earnings, an increase in the personal allowance or a decrease in the lowest rate of tax makes no difference to their income. Instead, an increase in the primary threshold for NIC purposes or changes to the UC system (for example increases to the work allowances) might increase their household income more efficiently. (We note these particular powers are not within the remit of the Scottish Government). We are of course aware that the Scottish Government has indicated that there are only likely to be increases to the bands during the coming parliament to the extent necessary to reflect general price inflation, as a fiscal consolidation measure following the impact of the pandemic on the government’s finances. (Given the proposed freezes announced by the UK Chancellor, it is possible that even minor increases in Scottish thresholds might result in slower growth in Scottish income tax receipts in comparison with UK income tax receipts, which could penalise Scotland's funding through the block grant). However, when resources again allow more significant changes to the Scottish income tax system, the government needs to assess the benefits of this against other options such as using social security powers or changes to council tax and other policy levers, in terms of their relative impacts on work incentives, the income and quality of life of the lowest paid people. The benefit of particular measures on different sections of the population (such as working age versus retirement age) needs careful consideration to ensure an equal recovery.

One example of research in respect of disproportionate impacts of the coronavirus pandemic relates to work that has been carried out in respect of unpaid carers. (The ONS published data showing the impact on various aspects of the lives of unpaid carers across Great Britain:
https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/social c are/articles/coronavirusandthesocialimpactsonunpaidcarersingreatbritain/a

Under the Scotland Act 2016, carers' benefits have been devolved to Scotland. At present, there is a Scottish Carer's Allowance Supplement, which tops up the UK-wide Carer's Allowance. In due course, it is expected that Carer's Assistance will replace Carer's Allowance and Carer's Allowance Supplement in Scotland. The devolution of these powers means the Scottish Government can provide additional assistance to some unpaid carers (those in receipt of UK-wide Carer's Allowance). It did this in 2020 through the Coronavirus (Scotland) (No. 2) Act 2020, and is currently proposing to do so in 2021 by means of the Carer's Allowance Supplement (Scotland) Bill. Scotland also has powers over health, and there may be other, non- tax and non-social security related policies that might provide other forms of support to unpaid carers.

It might be possible to do more to consider EDI issues and how policies might affect different groups during the development of policy, rather than to assess their impact once the policy has been determined. Publishing a detailed analysis of impacts when tax policy is being developed and consulting on this would improve consideration of fairness and equality issues earlier in the process. The government could also have a programme of reviewing whether assumptions made in evaluating impacts prove to be correct, or whether in fact there have been unintended consequences of a measure. (LITRG refers to unintended consequences of the tax policy-making process in its report, A better deal for the low-income taxpayer – see pages 47 to 49 of the full version at https://www.litrg.org.uk/latest-news/reports/201204-better-deal- low-income-taxpayer).

3. In 2022-23, it is likely that there will be reduced levels of available Covid-related financial support for the public and private sector. Given this, what should

be the priorities for the Scottish Government's budget?

We do not offer comment on what the Scottish Government's spending priorities should be. There is arguably limited potential for raising additional revenue through tax changes.

The Scottish Parliament has limited Scottish income tax powers – the ability to set rates and bands for income tax that applies to the non-savings and non-dividend income of Scottish taxpayers. While not offering a view on what rates and bands should apply, we note that the Scottish income tax structure is arguably already more progressive than that for UK income tax, and as a natural corollary of the structural difference (and interactions between the devolved and reserved aspects of income tax), there is some additional complexity for Scottish taxpayers as compared to those in the rest of the UK.

If changes are made to Scottish income tax, it is imperative that the interactions with the reserved aspects of income tax are carefully examined, as well as interactions with other aspects of the reserved taxes, such as NIC. In addition, it will be important to consider how the Fiscal Framework interacts. This will hopefully help ensure that any policies do not have unintended consequences and that if the aim is to raise additional revenues, for example, that this is the outcome.

In relation to Scottish income tax, it should be noted that perhaps the greatest impact felt by Scottish taxpayers will be as a result of any changes made by the UK Government to the reserved aspects of the system, in particular the personal allowance, which are outwith the control of Scotland.

Land and Buildings Transaction Tax (LBTT) and Scottish Landfill Tax (SLfT) are fully devolved taxes, so they are entirely within the remit of the Scottish Parliament. There may be policy options that, regardless of whether or not they raise additional revenue, may provide support to taxpayers – whether individuals or businesses; the market as a whole or specific classes of buyer. It would be important to establish whether there are particular types of transactions that require support, and whether a particular policy will have the desired effect. The Coronavirus (Scotland) (No. 2) Act 2020 increased the nil rate band for residential property transactions for several months with a view to stimulating the housing market. This provided an LBTT saving for the purchaser, but data suggests that house prices rose, effectively removing some or all of the benefit of the tax saving. (https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/housepriceindex/ march2021).

We note that following temporary relief from Stamp Duty Land Tax (SDLT) for first time buyers of shared ownership properties in 2010 – 2012, HMRC undertook an evaluation. It concluded that the majority of the 1 per cent tax relief (0.5-0.7%) was in fact capitalised in higher prices, although the post-tax outlay for buying property was estimated to have decreased by 0.3-0.5% after the relief was introduced. (See https://www.gov.uk/government/publications/evaluating-the-impact-of-stamp-duty-land-tax-first-time-buyers-relief).

We are not aware of any similar reviews being undertaken for the more recent LBTT cuts or the corresponding measures in the rest of the UK. Whilst we suspect it will be extremely difficult to determine the extent to which prices have been affected by the LBTT cut during the coronavirus pandemic (in the way they were impacted in 2011), against the general economic recovery as we emerge from the pandemic, we would recommend that an evaluation is carried out, similar to that undertaken by HMRC in late 2011, to help determine to what extent the LBTT cut achieved its objectives and its impact on LBTT revenues; and that the evidence of this review is taken into account in future decisions.

Over the past few years work has been carried out to review both non-domestic rates (Barclay Review of Business Rates: https://consult.gov.scot/rates-review/barclay-review-of-business-rates/) and council tax (The Commission on Local Tax Reform: http://localtaxcommission.scot/download-our-final-report/). Although recommendations made following the Barclay Review have been and are in the process of being implemented, there has been very little change to council tax. One option would be to earnestly review and reform council tax, with a particular focus on ensuring land or property values are reflected more consistently and updated regularly. Such a review could include the bands and rates. If there were concerns about capacity to pay in cash terms for certain groups, consideration could be given to mechanisms to allow payment deferral, for example.

In our response to The Commission on Local Tax Reform, we suggested possible ways of amending the current council tax system. We also set out some general principles to follow when reforming council tax. These points continue to be valid, and we would suggest that submission is also considered (https://www.tax.org.uk/policy-technical/submissions/future-local-taxation-scotland-ciot-comments). However, we note that such reform is a longer-term project and thus unlikely to have an impact on funding for 2022-23.

For all changes to existing devolved and local taxes, it is essential that adequate time and capacity is given over to ensuring that the taxes can continue to be administered effectively and efficiently and that there is clear and accessible guidance for affected taxpayers, as well as awareness-raising of any changes, their timing and what they mean for taxpayers.

Assuming that Scotland has the authority to introduce a tax in a particular policy area, there are a number of considerations that should be taken into account at an early stage. We do not provide a comprehensive list here, but some of the issues to be considered include the following:

The locus of the tax – ideally it should be easy to identify whether the object being taxed is in Scotland or connected with Scotland, rather than anywhere else. This has resulted in the fully devolved taxes to date being those relating to transactions that clearly take place in Scotland. This makes it simpler for taxpayers and the tax authority.

National and local – is the tax going to be imposed at a national level, in the same way throughout Scotland, and administered by the Scottish tax authority, Revenue Scotland? Or, is it going to be imposed at a local level? This might mean administration by local authorities and a choice over whether to levy the tax or not. If a tax is local, there are then considerations of how much of the tax is designed at a national level and how much at a local level – consistency across Scotland can mean greater ease of administration and understanding, but more local autonomy can mean a tax is better suited to local needs. Local autonomy could also result in distortions or a postcode lottery, meaning that those with the capacity to relocate may be able to live in a lower tax location. Those with less choice or lacking the finances to move home, may be stuck in a high tax location.

Use of tax revenues – this may depend in part on whether the tax is national or local. Considerations may include how much of the revenue goes into the general Scottish Budget; how much is retained by local authorities if a local tax; how much equalisation across local authorities there is if a local tax; whether hypothecation (the dedication of the revenue from a specific tax for a specific purpose) is possible and appropriate, and if so how prescriptive that is.

If new forms of taxation are to be introduced (whether local or national), we think it is important that there is a full and thorough consultation process. Ideally this would be carried out according to a new tax policy framework process, as consulted on by the Scottish Government in 2019 (see response to question 4 below). As with changes to existing local taxes, given the timescales involved in introducing new taxes, this will not assist with funding for 2022-23.

Consideration of new taxes might include taxes that target the need to tackle climate change. Climate change and carbon emissions know no national boundaries. It will therefore be particularly important to work with the UK Government and other devolved governments to ensure that any policies at the very least do not jar against other UK policies, and ideally complement them. Scotland has a target of achieving net zero emissions by 2045 – however, we note that this refers to carbon emissions produced. Ideally, the target should be net zero carbon emissions consumed.

Otherwise, there is a danger that policies that would allow the achievement of net zero emissions produced might actually lead to significantly higher emissions consumed, because they serve to displace emissions rather than lower them.

4. How should the Scottish Government's budget address the risks arising from the level and rate of recovery from the pandemic in Scotland relative to the rest of the UK?

In order to ensure Scotland is well-placed to address risks arising from the level and rate of recovery relative to the rest of the UK, it is important that Scotland's tax system has a secure tax base, and that the processes and mechanisms are in place such that the tax system is responsive to changing circumstances. Scotland can thereby ensure it has a tax system, policy framework and process for making tax policy and legislation that has integrity, credibility and is fit for purpose.

The situation created by the COVID-19 pandemic highlighted the importance of being able to make necessary tax changes quickly, without sacrificing scrutiny. The coronavirus pandemic is (hopefully) exceptional, and required exceptional measures, resulting in the need for amendments to various pieces of legislation, for example through the Coronavirus (Scotland) (No. 2) Act 2020. However, tax legislation often needs changing on a regular basis for much more mundane matters too, to ensure the credibility and integrity of the tax system.

It is therefore imperative that the work of the Devolved Taxes Legislation Working Group (DTLWG) is picked up in earnest as soon as possible. The DTLWG was set up by the Scottish Government together with the Scottish Parliament in March 2019. The DTLWG brings together stakeholders, including the CIOT, with an interest in the development of tax legislation (https://www.gov.scot/groups/devolved-taxes- legislation-working-group/).

This complemented the Scottish Government consultation 'Devolved taxes: a policy framework', which was published in March 2019: (https://consult.gov.scot/financial-strategy/devolved-taxes-policy-framework/).

The CIOT and its Low Incomes Tax Reform Group (LITRG) submitted a joint response to the consultation in June 2019 (https://www.litrg.org.uk/scottish-government- consultation-devolved-taxes-policy-framework).

While the consultation focused on the approach to planning, managing and implementing fully devolved tax policy in Scotland, the DTLWG was set up with the aim of taking forward recommendations made by the Budget Process Review Group in its June 2017 report. In particular, the DTWLG has explored options for alternative legislative processes for devolved taxes legislation and has examined the need for a Finance Bill. The DTLWG published its interim report in February 2020 for consultation and the CIOT responded (https://archive2021.parliament.scot/parliamentarybusiness/currentcommittees/114453.aspx).

As noted in our response to the consultation on the interim report of the DTLWG, we believe there is a strong case for adopting an alternative legislation process for the devolved taxes, and we think that an annual Finance Bill and Finance Bill process would provide Scotland with a practical avenue for carrying out tax changes. It is our view that the current processes do not offer a sufficient balance between the competing needs of speed, scrutiny and responsiveness.

Additional advantages of an annual Finance Bill process would be a likely improvement in taxpayer awareness and understanding of Scottish taxes. This is not only important for ensuring accountability, but may also help to improve taxpayer buy-in to the tax system (https://www2.deloitte.com/uk/en/pages/press-releases/articles/the-tax-education-gap-majority-of-the-uk-dont-understand-personal- tax.html).

5. How has the Fiscal Framework worked in managing the response to the crisis?

It should be noted that Scotland is in a subtly different position from that of the UK as a whole. Many commentators have pointed out that the Bank of England's quantitative easing programmes, although governed by the Bank's statutory remit, have in practice greatly relaxed the constraints on the UK government's ability to fund itself through gilt issuance. Scotland does not have this ability. Instead, it is funded by a combination of revenues from Scottish taxes (the phrase Scottish taxes includes the fully devolved taxes (Land and Buildings Transaction Tax and Scottish Landfill Tax), the shared taxes (Scottish income tax) and local taxes (Council Tax and Non-Domestic Rates)), the block grant and very limited borrowing (The borrowing (capital and resource) available to Scotland is set out in the Fiscal Framework Agreement:
https://www.gov.uk/government/publications/the-agreement-between-the-scottish-government-and-the-united-kingdom-government-on-the-scottish-governmen This places more constraints on Scotland's options.

The Fiscal Framework was published in February 2016 (the agreement can be viewed at
https://www.gov.uk/government/publications/the-agreement-between-the-scottish-government-and-the-united-kingdom-government-on-the-scottish-governmen

It sets out the fiscal arrangements required to go alongside the devolution of tax and welfare powers to Scotland. It is due to be reviewed later in 2021.

The Fiscal Framework includes a funding model that aims to guarantee a fair and transparent mechanism for adjusting the block grant, such that it reflects the introduction of devolved Scottish taxes and the transfer of responsibility for some social security spending to the Scottish Government. The growth of the annual block grant is determined by the operation of the Barnett Formula. The idea is that the Scottish budget should benefit in full from policy decisions by the Scottish Government that increase revenues or reduce expenditure. In addition, it should bear the full costs of decisions that reduce revenues or increase expenditure. Meanwhile, the retention of funding from the block grant provides significant stability.

We noted in 2015 in a response to the UK Government on ‘Scotland in the United Kingdom: An enduring settlement’ that ‘the design of the fiscal framework and the decisions concerning block grant adjustments will be key to ensuring transparency and accountability ’ (Paragraph 1.3, https://www.tax.org.uk/policy-technical/submissions/scotland-united-kingdom-enduring-settlement-ciot-comments).

In terms of considering the Fiscal Framework, we think the comments we made in 2015 in response to the Finance Committee’s call for evidence remain relevant (https://www.litrg.org.uk/latest-news/submissions/150417-inquiry-scotlands-fiscal-framework-call-evidence).

We have previously suggested that the pandemic may highlight problematic areas and stresses in the existing Fiscal Framework (https://consult.gov.scot/economic-development/call-for-views-advisory-group-on-economic-recovery/consultation/view_respondent?_b_index=120&sort=excerpt& and https://archive2021.parliament.scot/parliamentarybusiness/CurrentCommittees/1152 36.aspx).

In light of that, we suggested there should be an examination of the fiscal impacts of the support programmes and how UK government funding in response to the coronavirus pandemic has translated into funds for the Scottish Government via the block grant and whether the Fiscal Framework has operated effectively and appropriately.

6. How should learnings from the pandemic inform the forthcoming review of the Fiscal Framework?

In response to the coronavirus pandemic, both the UK Government and Scottish Government have established programmes of financial support for various sectors. Part of the considerations should include an examination of the fiscal impacts of these support programmes and how funding announced by the UK Government has translated into funds available for the Scottish Government, via the block grant. This will help to establish whether the Fiscal Framework has operated as expected and whether it has worked appropriately in these exceptional circumstances.

The coronavirus pandemic may have highlighted problematic areas and stresses in the Fiscal Framework that might not be noticed in more normal circumstances. The Information Centre of the Scottish Parliament (SPICe) has published a number of articles that consider the Scottish Government’s funding in the context of the coronavirus pandemic (https://spice-spotlight.scot/category/economy-and-finance/).

The questions raised and others like them will no doubt be helpful in informing the 2021 review of the Fiscal Framework.

SPICe The Information Centre
An t-Ionad Fiosrachaidh

Finance and Public Administration Committee

Pre-Budget Scrutiny: Summary of Evidence

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Committee call for views

On 24 June the Committee launched a call for views on Scotland’s public finances in 2022-23 and how they have been affected by COVID-19? The questions asked were as follows:

- How should the Scottish Government's Budget for 2022-23 address the need for a fair and equal recovery from the Covid crisis?
- How should the Scottish Government’s Budget address the different impacts of the pandemic across age, income and education groups and across places?
- In 2022-23, it is likely that there will be reduced levels of available Covid-related financial support for the public and private sector. Given this, what should be the priorities for the Scottish Government’s Budget?
- How should the Scottish Government Budget in 2022-23 address the risks arising from the level and rate of recovery from the pandemic in Scotland relative to the rest of the UK? Please consider any impact on devolved tax receipts and social security benefits in your answer.
- How has the Fiscal Framework worked in managing response to the crisis?
- How should learnings from the pandemic inform the forthcoming review of the Fiscal Framework?

This paper summarises the responses. Not all the responses answered the questions directly, so this summary is presented by theme.

Introduction

As things stand, the Scottish Government does not have sight of the size of its spending envelope beyond this fiscal year. A UK and Scottish spending review is likely later this year, in advance of detailed spending proposals coming forward when the Scottish Budget is introduced towards the end of the calendar year (on current assumptions).

Professor Graeme Roy, Dean of External Engagement at the University of Glasgow states that:

> “It is clear that budgets are going to be tight, not just in 2022-23 but for the rest of the Parliament, with demand likely to outstrip the funding available. As noted in the questions, it is likely that there will be reduced levels of Covid-related financial support for the public and private sector. Whilst exact spending plans are not yet available for the UK (and therefore the Scottish block grant) for beyond this year, the UK Government is likely to seek to establish a long-term plan for fiscal sustainability that takes into account the significant increase in borrowing over the last two years.”

That is the context for the 2022-23 Budget. The need across the UK to provide healthcare and prioritise Education spend in light of the disruptions caused by the pandemic might feed through into Scotland’s budget via Barnett consequentials (as these are fully devolved and make up a sizeable chunk of devolved spending).

However, other “unprotected budgets” might see their funding reduced, and it is likely that tough spending and taxation choices await as the extremely high levels of debt undertaken by the UK Government are addressed.

Given this, Professor Roy argues:

> “It is therefore important that decisions over funding are prioritised to the areas of devolved public spending with the potential to have the greatest impact upon the outcomes sought by MSPs. For that to happen, we need detailed evidence that goes beyond high-level narratives around economic growth, wellbeing or tackling inequality. We need more data, analysis, delivery plans and clear monitoring and evaluation proposals. This has been an area of weakness in the past. In some cases, detailed evidence of likely impact might not be possible. However, at the very least a transparent assessment of anticipated effects – small or large – with associated monitoring will be a good second-best outcome.”

Covid Recovery and Budget Priorities

How should budget address need for fair and equal recovery from COVID crisis?

The submission from the Fraser of Allander Institute (FAI) provides helpful context to this question. It makes the point that the pandemic has had very uneven health, financial and other economic impacts, and there remains significant uncertainty “about how many of those affected by the pandemic will find those effects are temporary, and how many will be impacted permanently.”

In such a context, therefore, “what constitutes a ‘fair and equal’ recovery is a somewhat subjective question.”

In the context of the 2022-23 budget and supporting documentation, however, the FAI state that:

> “the government should: articulate clearly its objectives for recovery and how it will assess fairness in this context; draw on up-to-date evidence of the impacts of the pandemic and the progress of the recovery, recognising the range of outcomes and groups that are relevant to this; draw on this evidence to support the policy prioritisation process; articulate the anticipated contribution of those policies towards its aspirations for a ‘fair and equal’ recovery.
>
> In this context, the subject committees at parliament can play an important role in scrutinising the governments evidence base and rationale for policy decisions during the pre-budget scrutiny process.”

Given the uncertainty surrounding the short, medium and long terms impacts of the pandemic, there will be a need for ongoing monitoring and flexibility around budgetary plans.” But also “where the broad scale of the policy challenge is understood – the challenges for enabling the health and education recoveries for example – policy and funding must be informed by clear long-term strategy and vision.”

> “In making its budget plans, the government needs to clearly articulate the outcomes that it anticipates its policies will have for different groups, and assess whether its interventions are the most effective means of delivering those outcomes.”

On the pandemic Budgetary impact and the Budgetary prospects for 2022-23, the FAI state:

> “Covid-19 will continue to have an indirect impact on budgetary pressures in 2022-23 even if the direct threat of the virus itself has dissipated. Covid is likely to have legacy issues on the health budget (backlogs for elective care, potentially legacy issues around long Covid or mental health, etc.), as well as for skills and employability services, and education too. These legacy issues will overlap with the underlying pressures on budgets that pre-existed Covid (demographic change, etc.)
>
> Under current UK Government plans, we can anticipate that the underlying block grant will increase by at least around two per cent in real terms in 2022/23. It is quite likely that the UK Government will announce additional spending on top of this before the start of the 2022/23 year. Nonetheless, the budget outlook looks set to be extremely tight given the multidimensional nature of the recovery on top of the pre-existing spending pressures.”

Given this tight context, what do the submissions consider should be some of the priorities for spend?

Proposed spending priorities

In answering this question, several submissions noted that the pandemic has disproportionately affected poorer communities, with people living in poorer communities more likely to die than people in more affluent communities. Impacts have arisen across a wide range of policy areas.

For example, on Housing, the Chartered Institute of Housing Scotland (CIHS) stated that

> “those living in poor or overcrowded housing faced additional stress and many people faced social isolation and loneliness… Precarious employment, reduced earnings and redundancies meant that many tenants struggled to keep up with rent and while temporary restrictions on evictions have ensured that we have avoided a significant increase in homelessness to date, we are concerned that in the longer term many households will find themselves homeless. The winding up of the furlough scheme in September is likely to lead to a significant increase in rent arrears in the social and private rented sector if further financial support is not made available to tenants.”

The Scottish Federation of Housing Associations (SFHA) submission notes that around one-fifth of Scots live in social housing. They argue that levels of “grant investment must increase and be reviewed annually.”

> “SFHA has engaged fully in the recent process to review grant benchmark levels but we remain concerned cost increases have not been fully reflected which could mean development for some associations is not viable. In March 2021, SFHA published research which found that the cost of new build increased over the life of the last parliament, with the average works cost per unit increasing from £114,000 in 2016/17 to £134–138,000 in 2020/21.
>
> In addition to the cost increases evidenced during this review, supply chain issues and the subsequent cost increases (of up to 300%) in construction materials which have arisen because of global demand will further put pressure on the supply programme.”

The SURF network (a regeneration forum) stated that

> “a fair and equal recovery will require particular actions from the Scottish Government and its agencies to protect, support and renew those communities that were already struggling before the pandemic with fragile economies, social problems and other challenges.”

They advocate greater “targeting of available regeneration funding in multiply-deprived places, from all relevant agencies, policy-makers and funders.”

> “SURF has previously called on the Scottish Government to identify 15 strategically significant deprived places in Scotland best suited to sustained and cooperative investment in a new generation of long-term place-based regeneration initiatives. Convergence targets could be adopted to set social and economic outcome targets and monitor progress. Adequate processes to identify transferable learning and effective models of operation would add value to the limited geographical focus of these investments.”

The submission from the Child Poverty Action Group makes three explicit recommendations for the 2022-23 Budget. These are:

- “Double the value of the Scottish child payment in this budget.
- Invest in wider policies to tackle child poverty including childcare, housing and fair employment.
- Put reducing child poverty at the heart of the Scottish budget process. A goal of this and every budget should be to resource policies that will achieve the targets in the Child Poverty (Scotland)) Act.”

They welcome the commitment to double the value of the Scottish child payment by the end of 2022, but contend that this needs to be accelerated to April 2022. If not, they argue that statutory targets to reduce child poverty by 2023-24 will not be met, undermining a fair and equal recovery from the Covid crisis.

> "The top priority in this year's budget process must therefore be a doubling of the payment, ensuring that low-income households receive at least £20 per child per week from April 2022. Even in the current challenging environment and despite planned UK government cuts to universal credit, we, along with other independent experts, believe meeting the child poverty targets is possible with the powers that the Scottish Government currently holds. The evidence is clear that to achieve this doubling the child payment needs to take place in the coming year, keeping open the possibility of further additional investment if required, in 2023-24 in order to meet the interim statutory target."

The STUC also supports the doubling of the child payment.

Alcohol Focus Scotland emphasis the impact on alcohol in Scottish society, an issue which has been in the news recently. They note that

> "The burden of alcohol harm falls disproportionately on those in our poorest communities, where rates of alcohol-specific death and alcohol-related hospital stays were eight times higher than in the most affluent areas before the crisis. The pandemic and the social restrictions which have accompanied it appear to be polarising drinking habits in Scotland, with a real risk of widening existing inequalities in alcohol harm."

They suggest that increasing the price of alcohol can reduce alcohol harm. This, however, needs to be matched by investment in recovery-oriented alcohol services in a similar way to investments in drug treatment.

> "There is a strong international evidence base that increasing the price of alcohol, reducing its availability and controlling how it is marketed can prevent alcohol harm. These policies cost little if anything to implement. Where investment is required, however, is in fulfilling people's right to access the support and treatment they need to help them to recover when they experience an alcohol problem. We have recently seen a significant investment in drug treatment in response to the increasing numbers of people who are tragically losing their lives to drugs. This needs to be matched with investment in recovery-oriented alcohol services."

The make two suggestions for raising funds to support this increase in investment:

> "1. A public health supplement to non-domestic (business) rates, applied to retailers licensed to sell alcohol and linked to volume of sales
>
> 2. The creation of a new local public health tax that applies a levy to the sale of alcohol in the off trade
>
> Revenues would be levied, collected and spent by local government on mitigating the wide-ranging social costs associated with alcohol use, and could include local preventative and enforcement activities."

The submission by the Scottish Human Rights Commission (SHRC) talked about the duty of government to provide a "minimum core" of an adequate standard of living which would include "basic housing and freedom from starvation". They state that "the current level of homelessness and poverty, including food poverty, in Scotland means that we can say that Scotland is failing to provide a minimum core of economic, social and cultural rights". They see addressing this problem as "priority number one" for the budget.

The Scottish Trades Union Congress (STUC) call for action on pay, which they state for public sector workers has seen a cumulative real terms loss in wages of 15% over the last decade (equivalent to £4,000). They argue that "restorative pay settlements would:

- Reduce the gender pay gap. Women are twice as likely to be key workers than men.
- Reduce in-work and child poverty. As well as being relatively low earners, many keyworkers work part-time and live in single-parent households – risk factors associated with both in-work poverty and child poverty.
- Support inclusive growth. Low-earners spend more in the local economy than high-earners and a high proportion of key workers live in Scotland's more rural, remote areas and deprived areas.
- Raise revenue. An estimated 40% of the cost of a public sector pay increase would be recouped in tax revenue.
- Support family resilience. 46% of key workers with children have a partner who is in non-key work.
- Support equality. Black and minority ethnic (BME) employees are more likely than white employees to be key workers."

Paths for all, a charity aiming to increase walking in Scotland calls for an "increase in the sport and physical activity budget" to "make big inroads into physical activity targets, social prescribing, and reduction of social and transport inequalities."

> "Increased provision of regular, reliable, and affordable public transport across Scotland will help with physical activity – walking to the bus etc - reduces carbon emissions, increases community cohesion."

Linked to this, Living Streets Scotland, noted the increased prevalence of walking during the pandemic, and noted that "street maintenance and cleanliness" needs to improve. Like Paths for All, this submission calls for increased investment in local public transport, walking and cycling", and a reversal of "chronic underinvestment in local government services" which "discourages walking and impairs local economic development."

> "funding must be found to build on temporary changes to streets, where these have been successful….This includes sufficient space for both pedestrian movement and businesses to retain outdoor hospitality for much of the year.
>
> Long-term and strategic funding is needed to regenerate post retail town centres. This must include upgrading the public realm. Investment in public

> health such as promoting walking is vital if pressure on the NHS is to be reduced in the medium to long-term."

The submission from Bòrd na Gàidhlig highlighted some of the specific challenges that have faced many island and rural parts of Scotland, who were also facing challenges prior to the pandemic, around "population decline, age imbalances and high living costs".

> "In part this reflects dependence on a small number of sectors (e.g. tourism, fisheries) and individual employers, some of which are low paying. In some islands, tourism accounts for as much as 40% of economic activity. Reduced/no tourism activity has affected not only "tourism" businesses (e.g. accommodation providers). It has also hit other sectors - e.g. shops, transport providers - which benefit from visitor spend. The pandemic has particularly affected islands where earnings gained in the summer support many individuals who have low or zero income at other times of the year."

Bòrd na Gàidhlig argue that "appropriate levels of investment are required to ensure that the conditions exist to support islands and rural areas, including those where the use of Gaelic is currently high. That will help rebuild confidence in communities hit hard by the pandemic." Proposed areas for investment in their submission were in "the quality of digital access" in island and remote communities (Age Scotland make a similar point), and "greater investment…in ferry and bus services in the islands in particular, and in reducing the cost of travel for young people."

On support for business, the Scottish Chambers of Commerce (SCC) are concerned that the end of business support measures is a "moment of maximum danger for many businesses. They are calling for the 2022-23 Budget to include "commitments to longer term business support and assurances that businesses can access business support to all sectors of the economy, including the expansion of rates reliefs to more sectors and businesses which will take longer to recover, as well as additional business grants provision if required."

SCC also want a long term commitment to no new business taxes or levied for the lifetime of the Parliament, including the "scrapping or deferring of any additional business taxes such as the proposed workplace parking levy and transient visitor levy."

The submission by the Royal Society of Edinburgh (RSE) focuses on some of the budgetary risks that the Scottish Government will need to consider in the short, medium to long term. In the short term, if there is a 4th pandemic wave, there will be a need for further public spending. Other risks include high levels of inflation beyond 2% (which the Bank of England is now forecasting). This has a number of potential impacts on the Budget from increased and differential costs across different parts of public spending and the wider economy. They also identify budgetary risks and pressures emerging from "climate change, falling tax receipts due to businesses failing and rising unemployment as furlough ends."

Other spending pressures emerging, and identified by the RSE (the Auditor General makes a similar point) are within the health care system, with major backlogs in appointments and diagnosis which will have particular impacts in the short term.

> "However, equal or more attention may have to be given to the social care sector, as this is where the pandemic has exposed some of the greatest weaknesses. This will be a key spending priority for the Scottish Government, but it's unclear what demands this will place on the Scottish Budget in the short-medium term. Another key spending priority will be education to ensure that any lost education resulting from the pandemic is addressed."

Pressures caused by the pandemic and the subsequent backlogs, "must be managed alongside pre-existing financial sustainability pressures in areas such as the NHS and Local Government (Auditor General).

The RSE believe that short and medium term pressure in health and education arising from the pandemic, should not result in the Government losing sight of its

> "aspirations to recover by improving growth, achieving net-zero, and establishing economy focused on wellbeing. Key aspects of a wellbeing economy are access to a high standard of employment which offers the minimum of a living wage, skills development, and low inequality. The RSE believes that a spending priority will be to support the economy through investing in early-stage companies (spinouts and start-ups), which are crucial to job creation, and aiming to fulfil the recommendations presented in the Social Renewal and Economic Recovery reports."

The Scottish Property Federation (SPF) submission makes a number of suggestions for the Budget in 2022-23, including:

- Additional resource for planning to allow it to be a "dynamic enabler of development and investment. Planning and tax incentives to encourage mixed-use developments could support regeneration and help realise the ambition of 20-minute neighbourhoods."
- Continue work to establish Green Ports and development zones to create places for employment in both rural and urban communities through targeted support for investment and jobs.
- Develop a national strategy to fund education facilities and well distributed primary and secondary healthcare facilities to enable investment and new development. It is important to consider the implications of changing demographics within society and the implications for later life healthcare and the facilities that communities will require across all age ranges. In light of the COVID-19 pandemic, consideration should be given to investment in the centralisation of health care facilities and refocusing a level of care on better distributed local community facilities.
- Encourage investment into our high streets: We would like to see key reforms to property taxation and a reduction or removal of charging empty property rates on shops and other business properties that often simply cannot be re-let due to wider economic conditions. It is also vital that the Business Growth

Accelerator is maintained to encourage redevelopment and to remove the risk of empty rates on speculative development.
- Better resourcing of planning departments: we need an efficient and effective planning system, and an alignment of public and private capital to deliver infrastructure. Local authority planning departments have seen significant cuts to their budgets, which has had implications for the speed of processing applications and the ability for authorities to think and plan strategically. It is vital for our long-term recovery that local planning departments are properly funded and able to respond quicker to economic and market changes.
- Scottish National Investment Bank: We would like to see the greater capitalisation of the Scottish National Investment Bank and more projects agreed to help recovery."

The Auditor General makes the point that the initial fiscal response to the pandemic in 2020-21 and 2021-22 will increasingly be replaced by a need for financial measures to support recovery from the wider impact of the pandemic on the economy, wellbeing and public services:

> "In determining its budget proposals, the Scottish Government will need to have a clear understanding of how it plans to transition from its initial financial response to more of a recovery phase. But given the continuing uncertainties about the course of the pandemic it is also likely to need to maintain a flexible approach to its financial planning. The Committee may wish to explore how the Scottish Government is addressing these challenges as part of its scrutiny."

Some of the individual responses do not go into specific policy details, however, some of the points raised in response to the question of Budget priorities are as follows:

- Trevor Swistchew argued that there should be a focus on "the lowest incomes" when allocating budgets.
- Robert Motyka favours consideration being given to "a universal basic income of £600" [presumably per month].
- Cori Williams believes that "more teachers" are required to close learning gaps caused by the pandemic and that Councils should be "forced" to employ them (presumably through ring-fencing resources for this purpose).
- Gordon Drummond agreed that "early education and remediation for loss of education, should be prioritised" as well as "active travel".
- One respondent, who wished their submission to remain anonymous said that encouraging "the unemployed to gain access to college or university so as to gain better skills" should be a priority, and that the "middle aged who have lost their jobs are being overlooked".
- Another individual called for the "immediate reduction and eventual elimination of unjustified expenses and wages of Central and Local Government."

Green recovery

Several submissions mentioned the green recovery and the challenge in meeting ambitious net-zero targets.

One key policy area in this regard is housing, with homes accounting for 15% of Scottish carbon emission (CIHS). CIHS emphasis that the cost of the meeting the challenge of retrofitting energy efficiency measures in homes will be costly (estimated at £33 billion) but should not be

> "passed on to low income households, risking an increase in poverty…. With sufficient investment from Scottish Government, the journey towards net-zero carbon presents an opportunity to create skilled jobs across the country and aid the economic recovery from Covid-19."

The SFHA welcome the commitment to a five year £100m Social Housing Net Zero Heat Fund and the additional £10m to support fabric improvements in the 2021/22 programme.

> "However, this represents only a fraction of the funds needed to support the sector; the…costs for RSLs (Registered Social Landlords) to meet EESSH2 (Energy Efficiency Standard for Social Housing Two), and the Scottish Government's previous estimates for the social sector as a whole which suggest a cost of between £3.4 and £3.7bn, which again do not yet fully account for the transition to decarbonised heating systems.
>
> More recent modelling by the Scottish Government indicates a total figure of closer to £6bn if only low carbon solutions were to be implemented; the current fund therefore represents only around 2% of the total cost. To date, the majority (over 90%) of the investment required to meet the initial EESSH milestone has come from landlords' own resources. Looking ahead to EESSH2 and the transition to net zero, for the majority of our members the greatest challenge will be funding the upgrades required. Indeed, almost 80% of respondents to our recent survey on EESSH2 found sourcing funding and the capital investment for measures either 'very challenging' or 'extremely challenging'. The majority of housing association income derives from rents and meeting further cost commitments may result in rent increases for tenants which in turn can impact affordability. The alternative is increasing private finance; however, rental income is also what funds repayments."

On the tax side, the submission from the Chartered Institute of Taxation and its Low Incomes Tax Reform Group said:

> "Consideration of new taxes might include taxes that target the need to tackle climate change. Climate change and carbon emissions know no national boundaries. It will therefore be particularly important to work with the UK Government and other devolved governments to ensure that any policies at the very least do not jar against other UK policies, and ideally complement them. Scotland has a target of achieving net zero emissions by 2045 – however, we note that this refers to carbon emissions produced. Ideally, the

> target should be net zero carbon emissions consumed. Otherwise, there is a danger that policies that would allow the achievement of net zero emissions produced might actually lead to significantly higher emissions consumed, because they serve to displace emissions rather than lower them."

The SPF makes some recommendations aimed at Green recovery and achieving net zero by 2045:

- Support new connections to the electricity grid: The electrification of heat and cooling in buildings, and of transport, will be critical to Scotland achieving net zero by 2045.
- Incentivise the improvement of inefficient buildings: The planned introduction of minimum energy efficiency regulations across all sectors of the built environment in Scotland will help to make existing buildings more efficient to operate. While increased efficiency may lead to lower energy prices for owners and tenants, there is a need for significant up-front investment…In addition to regulations, the redevelopment of existing properties to meet higher energy efficiency targets should be incentivised through the property tax system. Discounts on business rates and LBTT should be investigated by the Scottish Government as it could help to make more efficient properties more attractive to potential buyers and tenants, which in turn could provide a return on the investment made to improve a property. Funding and tax support to encourage the adaption and repurposing of heritage buildings to help create great destinations and support the unique character of our towns and cities is also an important consideration."

Linking the Budget to Outcomes and the National Performance Framework (NPF)

The submission from the David Hume Institute argues for the Budget being presented in a way that allows people to understand the decision making process, and the underlying evidence for the priorities and decisions taken. The also call for better linkages between the Budget and the NPF:

> "Budget priorities should be directly linked to the progress for all of the NPF which should be tracked regularly. The budget should be clear on the interdependencies between different investment priorities and look for efficiencies across budget boundaries."

Different impacts of pandemic by age, income, education and place

A number of submissions stated that the pandemic has exacerbated pre-existing inequalities, and impacts were spread across demographics.

For example, Citizens Advice Scotland (CAS) said:

"Over the course of the pandemic we observed that new clients – people using the CAB network for the first time - have had a different demographic profile compared to more regular CAB clients. These new clients are more likely to be in employment (26% as opposed to 16%), younger (33% under 35 compared to 22% repeat clients), and living in the least deprived Scottish Index of Multiple Deprivation areas.

That shows the extent of the impact the virus has had and the need for a strong safety net for people going forward. We would argue that the committee and budget should recognise that every citizen in the country should be supported to participate in, benefit from, and contribute towards a growing economy, and to focus on measures that prevent people falling into poverty and give people more spending power, particularly those on lower incomes and newly indebted.

While our own network data shows this crisis has affected people across demographics, we believe the starting point for inclusive recovery needs to be ensuring the most vulnerable are protected, and not caught in an increasing cost of living crisis."

Age Scotland highlighted the issue of pensioner poverty and argued that the Budget should include measures to assist the 150,000 Scottish pensioners living in relative poverty. The requirement to stay at home for much of the past 18 months will have pushed more pensioners into fuel poverty.

"The Scottish Government should provide more funding to energy efficiency schemes to help support homeowners to drive down domestic energy costs and protect the environment."

The Age Scotland submission emphasises a focus on preventative measures to tackle issues like loneliness (eg the Tackling loneliness fund of £10m is welcomed), which will allow more people to live well for longer and save costs from health interventions.

Children in Scotland think there would be a better alignment of the Scottish Government's stated ambitions on equalities with what they describe as a wellbeing budget. They recommend:

"1. Production of detailed outcome distribution maps for different population groups, starting with children. These distribution maps would go further than the current NPF performance overviews submitted to parliamentary committees by providing detailed information on how different population groups experience wellbeing.

2. Production of wellbeing forecasts. Policy development needs to be more clearly connected to the evidence on what would shift the dial on outcome indicators. Interventions (and associated spending bids) should be assessed according to the robustness of the case they make for supporting children's wellbeing, not just their economic and fiscal impacts. This analysis would encompass comparisons and trade-offs to be made across departments and

> outcome areas to support action with the highest likelihood of improving outcomes. Business cases need to give way to wellbeing investment cases that ask this fundamental question: how will this contribute to tangible improvement in children's wellbeing in the longer term?"

The David Hume Institute submission cited research undertaken in partnership with the Children's Parliament and Scottish Youth Parliament, showing the top 4 priorities for young people are

> "climate change, digital inequality, inclusion and poverty. The budget must have clarity on investment in 2022-23 for climate transition to net zero; delivering planned expenditure on broadband accessibility and digital inclusion; setting how expenditure will directly influence the reduction in poverty and promote greater inclusion."

The Dundee Third Sector Interface place an emphasis on younger people retaining skills as we emerge from the pandemic. They

> "respectfully request that serious consideration is given to putting a moratorium on the plans for removing Employability Fund and similar to be replaced by No One Left Behind and Youth Guarantee, etc. for a further year. To allow organisations to recover from the impact of Covid and be able to put more planning and thought into the next steps so that is effective and supportive for young people."

Impact of pandemic on women

The impact of the pandemic on women was raised in a number of submissions. Women are far more likely to have primary caring responsibilities, and are around a third more likely to work in the sectors which have been shut down or restricted (Audit Scotland).

> "Action to support economic recovery and protect and support jobs will need to prioritise increasing the security and adequacy of women's earnings in these sectors." – Child Poverty Action Group in Scotland

The Health and Social Care Alliance Scotland (the ALLIANCE) also called for the budget to ensure Scotland's public finances deliver an "economy that works for women". Specifically there should be a

> "Greater recognition of the gendered nature of care and its role as an investment in (rather than a drain on) Scotland's people, society and economy would help put it on a more equal footing within the current economic system that traditionally prioritises male-dominated activity like construction as 'investment'. As the work on the caring economy by the Women's Budget Group Commission on a Gender-Equal Economy has demonstrated, investing 2% of GDP in care would result in three times the number of jobs in construction."

The Scottish Women's Budget Group urges "the Committee to broaden the focus beyond just age, income, education groups and place" and says that "the intersectional gendered effects of the health, social, and economic consequences of Covid-19 need to be front and centre in the process of policy, and in turn budget, decision making in all portfolios and in all the Committees.

In terms of how this is defined, the submission continues:

> "Gender analysis of the policy and resource allocation process in the budget means examining how budgetary allocations affect the economic and social opportunities of women and men, and restructuring revenue and spending decisions to eliminate unequal gendered outcomes…
>
> 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."

Proposals from the Scottish Women's Budget Group are for increasing investment in the care sector, which is overwhelmingly dominated by women; building in gender analysis in climate related infrastructure spending in housing, transport and construction.

On Social Care, immediate priorities include:

- "Commitment to working with local authorities to mitigate the impact of the UK policy of No Recourse to Public Funds and ensure that those in need have access to emergency support and Scotland specific social security payments;
- Increase the value of the Scottish Child Payment, to £20 per week, in recognition of the new circumstances within which it is being delivered and fast-track the role out of the new benefit;
- Increase the value and eligibility of Carers Allowance to provide support and protect carers from poverty"

On the differentials sectoral and business impacts, the SCC points out that some sectors, age-groups and locations have been hit more than others, and resource should be targeted appropriately.

> "To tackle these issues SCC would like to see the Scottish budget increase funding for Skills Development Scotland's Apprenticeship Employer Grant and additional grants support which targets economically disadvantaged individuals.
>
> This should also be supported by expanding and funding private sector business to business led peer-to-peer support networks such as SCC's "Future Female Business Leaders" initiative."

Local Government funding

There were submissions from a number of Councils as well as a joint submission from COSLA (Convention of Scottish Local Authorities), SOLACE (Society of Local Authority Chief Executives) and CIPFA (Chartered Institute of Public Finance and Accountability).

Key concerns in these were the removal of ring-fenced funding to allow local authorities to respond to specific local needs, and the baselining in the Local Government settlement of permanent funding.

There were also calls for multi-year settlements for local authorities. Indeed similar calls were made from other submissions for multi-year budgets across the board (eg the David Hume Institute).

A summary of key recommendations made by COSLA/SOLACE and CIPFA is as follows:

- “fair funding in the Scottish Budget to Local Government. Whilst there has been much focus on the role of the NHS in dealing with the pandemic, with the promise of significant levels of investment, this must not come at the expense of critical services which Local Government needs to continue to provide in recovery and tackling poverty and inequality.
- The establishment of a new National Care Service as proposed by the Scottish Government is a distraction from recovery which will take resources, time and capacity away from service delivery at the time we would wish to see a significant investment.
- Local Government needs absolute flexibility to manage funding locally and to respond to need, rather than be pressed into areas of specific spend or to be limited to using funding by an artificial deadline or within a financial year.
- Investment in infrastructure, alongside investment in services, needs to be at the forefront of the Scottish Government’s thinking on the Scottish Budget.
- If Local Government is to play its part in achieving net zero emissions, then both revenue and capital funding is needed, alongside policy/ legislative levers to act effectively, integrating carbon reduction into Councils’ mainstream service delivery, as well as through dedicated initiatives.
- Targeting resource where the pandemic has hit society hardest is a more effective and value for money use of resource and, where policies are universal, they must be fully funded to enable Local Government to deliver these polices.
- There needs to be a whole system thinking about health and wellbeing, across the public sector. The key social determinants of health of education, housing, employment are all drivers behind long term health and must be invested to improve health outcomes and address health inequality.
- Work on a Local Government Fiscal Framework should tie into reform of the Fiscal Framework system as a whole and should provide a fair and equal basis across the fiscal landscape in Scotland.”

Support for Retail sector

There is no doubt that the retail sector has been particularly hard hit by the pandemic, with shops forced to close and even now, footfall especially in city centres significantly lower than pre-pandemic levels.

The Scottish Retail Consortium (SRC) submission said:

> "Our requests of the Scottish Budget is that: it provides early certainty for firms, reignites consumer spending, and keeps down the cost of doing business."

The SRC go on to make some suggestions for the Budget:

> "The £2 million Scotland Loves Local Fund for 2021-22 is a promising move to enhance the viability of our town centres, however this shouldn't be the limit of our ambition – policy makers need to think more creatively and at greater scale about enticing shoppers back e.g. perhaps through temporary free parking, and/or a government advertising campaign to encourage people back to city centres, and/or a high street voucher scheme as the Northern Ireland Executive is introducing. A voucher scheme could trigger additional spending by shoppers beyond the value of the voucher transaction and create an even larger economic multiplier."

On non-domestic rates, the SRC welcome the rates relief provided during the pandemic and make the following suggestion for 2022-23:

> "Instead of a rigid re-instatement of 100% business rates next April, which were at a 21-year high prior to the crisis, Ministers should consider a modest further discount to business rates in 2022-23 (up to the new valuations coming in to effect in 2023-24) if retail sales don't pick up on a sustained basis. An early decision would be most helpful, as would a route map towards lowering the poundage to a permanently more sustainable level."

The SRC's final budget suggestion relates to the FM pledge to establish a Scottish retail strategy. It is hoped this work will conclude by the end of 2021.

The SRC go on to note:

> "It is conceivable the strategy's recommendations may have a fiscal implication. As such, it would be sensible for the Budget to include funding for the delivery of these recommendations, as well as for implementing the conclusions of the concurrent city centres recovery taskforce and the expected Ministerial response to the review of the town centres action plan."

Support for Voluntary sector

The Scottish Council for Voluntary Organisations considers that it has been somewhat overlooked by the Scottish Government in recent times:

“SCVO and colleagues across the voluntary sector were frustrated by the sector's omission from the Cabinet Secretary's budget statement in 2021-22. While the Cabinet Secretary recognised many other parts of society for contributing during the pandemic, the sector was overlooked. The Scottish Government frame Scotland's recovery as a joint endeavour, yet statements repeatedly refer to the importance of "business."”

They make a number of recommendations, cutting across a range of areas. These are summarised below:

- “invest in and recognise the voluntary sector as a significant employer, a partner, and a vital social and economic actor in Scotland’s recovery from the pandemic, alongside the public and private sectors in the 2022-23 Scottish Budget
- follow up on its commitment to meet with the Social Renewal Advisory Board and investigate the Board’s Calls to Action; explicitly outline how the Board’s report has influenced the 2022-23 Scottish Budget; and make resources available to progress the Calls
- share how it plans to build on the success of the Connecting Scotland Programme to support continued and solid infrastructure for digital inclusion
- extend and fund programmes, such as Community Jobs Scotland, for another year until Local Employment Partnerships (LEPs) are ready to deliver more employability programmes locally and ensure the voluntary sector is included in a comprehensive and inclusive whole system response
- make progress on the Equalities and Human Rights Committee’s request (from 2020-21) that the government works with the sector to develop new funding models and report on these to the parliament, drawing on innovative approaches developed with the sector during the pandemic
- embed flexible funding arrangements available during the pandemic in its non-covid related funds and standardise its annual funding decision making to ensure timely payments to voluntary organisations in time for the new financial year
- work with the sector to understand and address the challenges caused by the current competitive procurement environment and recognise the benefits of a more partnership-based approach.
- adopt formal procedures and guidelines across government and communicate these to mitigate the impacts of delayed UK and Scottish budgets on the voluntary sector
- work with the UK Government, Scottish Parliament, and experts on Scotland’s public finances to agree arrangements to support a shift to multi-year spending plans, and ensure good practice on multi-year funding currently in place is replicated across Government. The Scottish Independent Advocacy Alliance makes a similar point.

SCVO also call on the Committee to:

- investigate the Scottish Government progress in moving to multi-year funding. In particular, how the new Delivering Equally Safe and Supporting Equality

and Human Rights funds have worked in practice and whether similar methods can be adopted elsewhere.
- revisit what progress the Scottish Government has made in working with the sector to co-design new processes for funding applications."

How should Budget address the risks arising from the level and rate of recovery in Scotland relative to the rest of the UK?

So far the Scottish and UK economic performances during the pandemic have broadly mirrored each other, but some evidence cited the potential risks of Scotland's recovery being slower than the rest of the UK and the potential consequences of that for Scottish tax receipts, demand on social security benefits and the overall spending envelope.

The FAI submission summarises the risks as follows:

> "there is a risk that the economic recovery happens more slowly in Scotland than in rUK, and if this happens there could be budgetary consequences. If a divergence is forecast at the time of the budget, this could constrain the resources available to the government; if the divergence emerges after the budget is set, divergence can be managed through borrowing and other cash management powers.
>
> At the moment however, the risk that divergence in speed of recovery make a material difference to the budget seem low. The spending plans of the UK Government are a more material consideration to determining the size of budget envelope."

In response to this question, the David Hume Institute support the creation of the Community Jobs Scotland scheme arguing "at a time when tax receipts will be crucial, prioritising support for jobs where skills can be developed, rather than skills development alone, will be critical."

Use of tax powers

Not many submissions made explicit recommendations around the rates and bands of the fully devolved tax powers.

The STUC submission stated that it does not agree with freezing income tax for the duration of the Scottish Parliament.

> "It is clear that high earners have done well out of the pandemic and there is a need for additional investment in public services. Compared to Scotland, total tax revenue is much higher in Nordic countries and they are both more equal and more productive than Scotland. Sweden and Denmark collect at least 10% more of GDP in taxation each year than the UK."

On local taxation the STUC said:

> "While council tax is regressive and should be replaced, a council tax freeze is not effective at helping those on the lowest incomes (as most are protected by the council tax reduction scheme). In cash terms, it benefits those on higher incomes most, and undermines Local Authorities.
>
> In the medium to long term, progressively increasing the overall tax take of Central and Local Government (and using the additional revenue wisely, e.g. investing in public sector pay, childcare, social security and low-carbon infrastructure) should be a goal of policy. As the Nordics economic performance shows, there is no trade-off between high levels of tax and economic dynamism. In recent years organisations like the IMF have been highlighting that higher taxes can reduce inequality without impeding economic growth."

The STUC argues that blanket tax cuts for business through rates relief are not an efficient way of creating jobs or promoting fair work.

> "In many ways blanket tax cuts for business are the antithesis of a Fair Work First approach. Funding goes to companies that lay-off staff, or that fire and re-hire staff, in the same way as it goes to those who recognise unions and are genuinely doing their best to support workers at this time….. At a minimum we should be ensuring that rates relief is conditional on providing fair work."

The SCC did, however, propose the use of the yet to be introduced Air Departure tax (ADT), calling for this budget to commit to the introduction of ADT at reduced rates to "protect and renew Scotland's connectivity to the world."

On LBTT and Income tax, the SCC believes that "growing divergence across the UK risks putting Scottish businesses and consumers at a disadvantage and has potential to slow Scotland's return to economic growth and competitiveness". They are calling for LBTT bands to be equalised with English bands and for the Scottish Government to "avoid any further divergence with the rest of the UK on Scottish Income Tax rates to attract talent and protect household incomes."

The submission from the Chartered Institute of Taxation, makes a number of detailed points about the practical operation of the tax system. Key to its submission is that there needs to be careful consideration given to the *interaction* of tax policies across different levels of government.

> "When making choices relating to tax policies in the context of the tax powers that Scotland has, it is important that the Scottish Government gives detailed consideration to interactions between Scottish tax policies (both national and local taxes) and those for reserved taxes (including the reserved aspects of income tax). In addition, consideration needs to be given to interactions between Scottish tax policies and Scottish social security policies, as well as between those policies and UK reserved social security policies."

ICAS caution against introducing new taxes (for example a tourist tax or workplace parking levy) unless there is thorough prior consultation – "any new tax should only be adopted after a robust and full consultative process."

The SPF welcomes the Scottish Government's commitment to "reduce the large business supplement over the course of the current parliament and is an important step towards meeting the Barclay Review's recommendations. However, a full realignment with the rest of the UK is needed to reduce the current disadvantage faced by some Scottish ratepayers in order to attract new large businesses to Scotland."

On LBTT, the SPF note that current LBTT rates and thresholds have remained unchanged since the tax was introduced in 2015. They argue that the tax should be reviewed to ensure that it does not prevent individuals or families from being able to move within the housing market depending on their individual circumstances.

> "We are particularly concerned about the 10% tax band, and believe that its threshold should be increased to £500,000 (similar to that set by the UK Government) to reflect the pricing of relatively modest properties in our largest cities and their suburbs. There are also economic headwinds facing Scotland's economy in the months ahead, and it is important that the Scottish Government does not increase the LBTT burden on residential purchases and that it maintains a close watch on how wider economic factors are impacting on the market when deciding its LBTT rates and thresholds."

Fiscal Framework performance during pandemic

There was a general feeling in submissions that the Fiscal Framework held up well in response to the pandemic, possibly more by luck than design.

Professor Roy states:

> "retaining the Barnett Formula as a simple and effective mechanism to allocate the block grant has enabled emergency funding to be swiftly transferred to the Scottish Budget to support the response to COVID-19. In total £8.6 billion of funding was transferred in 2020/21 and a further £4.6 billion in 2021/22 (Source: SPICe). This has provided a significant degree of protection to the Scottish Budget. The Fiscal Framework has also ensured that the Scottish Government has been free to allocate these funds as it sees fit, with the opportunity to deliver specific Scottish schemes that better fit with the Scottish context."

The FAI submission points to the one "ad hoc adjustment" made to the normal operation of the framework.

> "These were minimum guaranteed increases in the devolved governments' block grants for the 2020/21 financial year. These guarantees meant that the devolved governments could make financial plans in the knowledge that they would receive at least these minimum grant uplifts, even if the UK

> government's eventual spending would have implied a lower allocation under the traditional Barnett formula approach (although if this eventually did arise, the guarantees could be deemed unfair to England)."

This meant that the UK devolved administrations were able to adequately fund their pandemic responses, "and largely averted major intergovernmental tensions over funding arrangements during the pandemic." However:

> "If the pandemic had had disproportionate health or economic impacts in one or other UK territory, then tensions around funding could have become more acute. The sheer scale of funding allocated also negated the urgent need for the Scottish Government to gain access to additional borrowing powers during the pandemic itself.
>
> A perennial problem with the fiscal framework however, and one that has become more evident during the pandemic, is the lack of any effective mechanisms for intergovernmental communication and coordination. At times the Scottish Government has had to make budgetary plans whilst being 'in the dark' about UK Government policy (and hence the level of resource that might subsequently flow to it). At other times the Scottish Government has had to react at short-notice to unexpected changes in UK Government policy that might impact Scotland."

The other consensus view on the Fiscal Framework is that falls in devolved tax revenues are largely offset by equivalent sized increases in block grant funding from the UK Government. As such the Scottish budget has been pretty well protected from common shocks, like COVID.

CAS's submission argued that:

> "The response of both the Scottish and UK governments to the crisis was positive in terms of getting support to citizens in a variety of ways quickly – whether that was increasing the value and use of Universal Credit, the furlough scheme, or wider use of Council Tax Reduction and Scottish Welfare Fund grants."

Much of this was funded by UK Government borrowing and Professor Roy notes that:

> "funding for the Scottish Budget has been sourced from UK Government borrowing coordinated, in large part, with a huge monetary stimulus (including QE programme) from the Bank of England. This has kept government borrowing costs low. Setting aside any constitutional debates about independence and borrowing, in the context of the current devolution settlement, the fact that all devolved administrations did not have to go direct to the market to borrow was another effective aspect of the Fiscal Framework."

There have been some challenges, however, like the delays early in the crisis around the Scottish Government having to wait for confirmed funding flowing via

Barnett from UK funding. This problem was eased by the minimum funding guarantee provided by the UK Government.

The Fiscal Framework has also perhaps worked less well around the potential risk of the crisis having different impacts between Scotland and the rest of the UK. At the outset of the pandemic, it was possible to imagine that the health impacts of COVID-19 might have disproportionately affected some parts of the UK more than others, perhaps reflecting underlying demographic or health factors. It was also possible that the economic impacts of restrictions – even if applied uniformly across the UK – might have had geographically uneven impacts, given variations in economic structures.

Although this has ultimately not been a big issue, but Professor Roy contends that:

> “the key point is that it could have been, and any review of the framework needs to consider how such risks could be avoided in the future.

The RSE submission highlights what it considers to the be the decline in the state of intergovernmental relations.

> “The RSE has previously recommended that intergovernmental relations be improved by creating an Independent Secretariat, which would help enhance the structure, formality and relationships of intergovernmental relations rather than create new mechanisms. A similar proposal has been put forward by the Dunlop Review and the joint review of intergovernmental relations by the UK Government and devolved administrations. The RSE is concerned that new initiatives from the UK Government, including the Shared Prosperity Fund, Levelling Up Fund, and Community Renewal Fund will bypass the devolved administrations. To ensure that such funds are as successful as possible, it will be crucially important that there is coordination and cooperation across the governments of the UK.”

ICAS also make the point that recovery will depend on “a more collegiate approach to politics across the UK, Scotland, regional partnerships and local authorities.”

Issues for the Fiscal Framework review

Amongst individual responses, it was very noticeable that many respondents did not know what the Fiscal Framework is. This is consistent with research due to be published shortly looking into public understanding of the Fiscal Framework.

ICAS argue that:

> “Pandemic funding has led to a greater desire to understand devolved finances and it would be helpful if the workings of the fiscal framework assisted in this. At present the complexity, and hence lack of understanding, of the fiscal framework and block grant adjustments, which form the underlying framework of the funding package, means that arguably there is a failure to provide clear public accountability. How much funding is in the

control of the Scottish Government and what are the factors that influence this?"

Responses to the Committee's questions on this matter came largely from academics, and larger organisations.

The FAI state that "in many respects the pandemic has not fundamentally altered the issues that the Fiscal Framework will need to cover. These issues include:

- Budget management tools to deal with forecast error. Before the pandemic, there was a strong case for saying that adequacy of the Scottish Government's budget management tools needed to be reviewed. Separate analysis by both the Scottish Government and Scottish Fiscal Commission suggests that the revenue borrowing limit of £300 million is likely to be exceeded reasonably frequently. Meanwhile the annual drawdown limit from the Scotland Reserve of £250 million represents only a slight increase on what was permissible with the 'Budget Exchange' mechanism that existing pre Scotland Act 2016. The pandemic has not materially altered the evidence or arguments here.
- Block Grant Adjustments. It is anticipated that the Fiscal Framework Review will provide an opportunity for the two governments to revisit their 2016 disputes around BGA mechanisms. The pandemic has not materially altered the evidence or arguments here.
- Inter-governmental communication and coordination. There is very limited communication or coordination between the UK and devolved governments on issues such as tax policy, even where policy decisions can have knock-on impacts for devolved governments. The pandemic did reinforce the challenges that these issues can create (e.g. decisions on stamp duty land tax or Non Domestic Rates in England can influence the resources available to the Scottish Government and have impacts on the Scottish economy).
- Additional fiscal powers. The Scottish Government's preference is for the review to be wide in scope, exploring the feasibility of devolving new powers over taxation and borrowing. The UK Government's preference is for the review to be narrower in scope, focussed on technical aspects of the existing fiscal framework. The pandemic has not materially altered the nature of the debate here.
- The nature of funding guarantees. Perhaps one issue that the pandemic has brought onto the table is the issue of funding guarantees. As noted above, these were introduced by the UK Government in July 2020 to bring further certainty to the Scottish Government's funding outlook and were an important part of the pandemic response. However, the UK Government has no plans to continue the use of the guarantees beyond 2020-21. The Scottish Government may argue for their continuation, but the UK Government is likely to be reticent to do so for reasons of taxpayer equity across the UK."

The FAI conclude that there are relatively few 'learnings' from the pandemic that might inform the review, but this was a result of the magnitude of resources allocated, and the fact that the health and economic impacts of the pandemic were fairly symmetric across the UK.

> “However the review might also usefully consider how the fiscal framework would deal with a future health or economic shock that did affect one part of the UK disproportionately more than others.”

Other views expressed for consideration by the review are as follows:

- **“**examining whether the borrowing and Scotland Reserve flexibilities available to the Scottish Government are sufficient, and in what way they could be made more robust (whilst respecting the need for the Scottish Government to operate within an overall UK fiscal framework).” – Professor Roy
- “The lack of formal arrangements, developed in more normal times, to support collaborative decision-making or improved communication on policy areas which are ‘reserved’ is a weakness. The state of intergovernmental relations extends far beyond the Fiscal Framework, and is an area for reform.” – Professor Roy
- “the timing of budget announcements, forecasts and parliamentary scrutiny that underpins an effective Budget process. This still does not work effectively. Perhaps the most visible example of this concerned the additional flexibilities made available to the Scottish Government simply because of the timing of when the SFC and OBR economic forecasts were made. It surely cannot be the case that funding flexibilities are either available or not available simply based on the date of publication of a report.” – Professor Roy

On the point of timing of fiscal events, the David Hume Institute make a similar point, arguing:

> “The timing of the UK budget to inform the Scottish budget should be set to remove the uncertainty seen in 2019-20 and 2021-22 to reduce the level of risk in the Scottish spending plans. The Scottish Parliament should seek assurances this will be the case to enable the benefits from the multi-year approach highlighted above to be achieved.”

They also argue that the Fiscal Framework limits the Scottish Government’s ability to manage spending (and saving) across financial years.

> “More flexibility could help commitments to multi-year spending plans as discussed in the Institute’s recent paper on multi-year budgeting. We support a review to learn about how the Fiscal Framework has worked during the pandemic and whether Covid has meant that the Framework needs amending in some way.
>
> The loss of significant European Funding as a result of EU-exit also needs to inform the review of the Fiscal Framework. New direct spend in Scotland from Whitehall departments (e.g. MHCLG previously DCLG) expanding their focus and teams into Scotland must also be considered.
>
> Understanding the interactions between devolved and reserved taxes through the fiscal framework is important so people and businesses can plan ahead. For instance, choices on Scottish income tax, have to take account income tax rates and bands elsewhere in the UK and the potential for higher earners

> to move out of Scotland. For those taxpayers who may stay in Scotland but have more flexibility in how they structure their personal finances, the interaction of Scottish Income Tax with income tax on savings and dividends, corporation tax and capital gains tax must also be considered. It is important the review of the Fiscal Framework considers these interactions."

The STUC make two points around the Fiscal Framework review. Specifically that:

> "the best and fairest option for the Scottish Budget would be the retention of the current mechanism for calculating the block grant relative to tax receipts.
>
> In addition, given the need for a green and fair recovery which addresses the immediate economic crisis, tackles climate change and reduces inequality, there is a clear need for greater borrowing powers for the Scottish Parliament as a matter of urgency."

Human rights budgeting

Several Submissions (for example, from the SHRC, the ALLIANCE, the SCVO, Alcohol Focus Scotland, the COVID-19 Review Observatory, the Scottish Independent Advocacy Alliance and others) called for a Human Rights based approach (HRBA) to budgeting which is defined as "using human rights standards and principles to develop and analyse a budget."

For example, the Covid-19 Review Observatory based at the University of Birmingham submission states:

> "We submit that addressing the need for a fair and equal recovery from the Covid crisis requires putting human rights at the centre of governmental decision making, including on matters of expenditure and the arrangement of public funding. There are international human rights obligations and obligations under the Human Rights Act 1998 which apply to all government activity, including the arrangement of public expenditure. In practice, this means that in making resource-allocation decisions, which have rights-fulling roles for instance on matters such as social care and housing provision, the Government is expected to take into account its human rights obligations. This includes especially obligations to respect, protect, and fulfil rights like the right to equality and non-discrimination, the right to life, the right to health, the right to education, and the right to food."

As part of this process, the submission calls for "increasing training and advice across the various governmental departments to build knowledge and improve the quality of published equality and human rights analysis."

Additionally, the Scottish Government should

> "commit to producing a clear, concise and accessible "Citizens" budget, as well as a bespoke budget website dedicated to "publishing analysis, reporting, evaluation reports, and other tools related to equality and human rights budgeting." This will improve vertical accountability for budged decision-

> making between citizens and the Scottish political institutions, but also parliamentary accountability, as it will furnish MSPs with accessible and transparent information about the human rights implications of budgetary proposals."

Budget transparency and public participation

The SHRC cited research which was critical of the Scottish budget when it came to fiscal transparency and public participation. Problems identified in their submission included:

- the Scottish Government routinely only publishes four of the eight key budget documents (as defined by international best practice).
- no citizens' versions of any of the key documents were produced despite best practice recommendations that these should be published and at the same time as the key documents, to facilitate engagement with the Budget when it matters.
- there are limited opportunities for the public and civil society to participate in budget scrutiny at all stages of the Budget.
- legislative oversight is focused at the pre-budget stage rather than an equal focus during the implementation stage of the Budget cycle.

The SHRC submission advocates equality and human rights considerations being embedded into the policies, practices, procedures and priorities of both government and public bodies to ensure that the budget addresses the many differential impacts of the pandemic. They call for pre and post - equality and human rights impact assessments (EQHRIAs). Both parts of this mechanism are equally important. A pre-assessment ensures that the best available evidence informs the decision making process, whilst a post-assessment ensures that these decisions are subsequently examined for their intended and unintended consequences.

Part of this process is ensuring that the correct data is collected to allow a proper assessment of the impacts of policies for different groups.

> "Moving forward, it will be important for the Scottish Government to address the long-standing issue of data gaps."

Ross Burnside
Senior Researcher, Financial Scrutiny Unit (FSU), SPICe