

Finance and Public Administration Committee

23rd Meeting 2023 (Session 6), Tuesday 19
September 2023

Pre-budget 2024-25 scrutiny: The sustainability of Scotland's finances

Purpose

1. The Committee is invited to take evidence in relation to its pre-budget 2024-25 scrutiny from the following panels of witnesses:

Panel 1

- Professor David Bell
- Professor David Heald
- João Sousa, Fraser of Allander Institute

Panel 2 (roundtable)

- Ruth Boyle, Policy and Campaigns Manager, The Poverty Alliance
- Stuart Hay, Director, Living Streets Scotland
- Michael Kellet, Director of Strategy, Governance & Performance, Public Health Scotland
- Alastair Sim, Director, Universities Scotland
- Adam Stachura, Head of Policy and Communications, Age Scotland
- Dr Judith Turbyne, Chief Executive, Children in Scotland
- Philip Whyte, Director, IPPR Scotland

2. This paper sets out background information in relation to the Committee's inquiry and highlights key issues raised in written submissions provided by the above witnesses. All submissions received to the Committee's call for views are published in full on the [Committee's web pages](#) and Annexe A also includes separate links to those submissions provided by the above witnesses. SPICe has produced a summary of the main themes identified in the written submissions, which is attached at Annexe B.

Fiscal sustainability

3. In its [pre-budget 2023-24 Report](#), the Committee said it was "not convinced that the Scottish Government is carrying out enough strategic long-term financial planning to ensure future fiscal sustainability". It also sought more evidence on how the Scottish Government was seeking to strike the right balance between responding to the immediate financial pressures and addressing long-term fiscal challenges. The then [Deputy First Minister's response](#) to the Report referred to the Scottish Government's plans for public service reform being "founded on a commitment to strategic long-term financial planning that ensures future fiscal

sustainability” and noted that its approach to the 2023-24 Budget addresses both short and long-term needs. The response went on to say that the Scottish Government “will continue to develop our approach to medium and long-term financial planning and will set this out in our next Medium-Term Financial Strategy”.

4. The Scottish Fiscal Commission (SFC) published its first [Fiscal Sustainability Report](#) on 22 March 2023, projecting the Scottish Government’s spending and funding up to 2072-73, with a particular focus on demographics, trends, and the cost of delivery of public services. It uses the balance between spending and funding to assess the long-term fiscal sustainability of the Scottish Government’s current tax and spending policies and its “annual budget gap”.
5. The SFC concluded that, “if public services in Scotland are to continue to be delivered as they are today, Scottish Government spending over the next 50 years will exceed the estimated funding available by an average of 1.7% a year”. This, it notes, is equivalent to £1.5 billion in today’s prices and “represents approximately 4% of average Scottish Government spending on health in each year, or 6% of average devolved income tax revenues”. To address this, the SFC argues that the Scottish Government would have to consistently reduce spending or raise devolved taxes through the next 50 years”.
6. Scotland’s population is projected to fall by approximately 400,000 over the next 50 years, driven by a low birth rate. The proportion of the population aged 65 and over is expected to increase from 22% in 2026-27 to 31% by 2072-73, while the working age (16-64 population) and under-16 population will fall in size. Scotland has a projected net annual inflow of migration averaging 19,000, including international and domestic migration. The changes to population structure will, the SFC argues, “translate into different levels of demand for public services, with higher pressure on health services and reduced demand for services used by younger people, such as education. Total spending on devolved public services (by both the Scottish Government and local authorities) is forecast to be £54 billion in 2027-28 rising to £120 billion by 2072-73.

Scottish Government Medium-Term Financial Strategy and SFC May 2023 Forecasts

7. On 25 May 2023, [Scotland’s Fiscal Outlook: The Scottish Government’s Sixth Medium-Term Financial Strategy \(MTFS\)](#) was published alongside the SFC’s [Scotland’s Economic and Fiscal Forecasts May 2023](#).
8. The SFC’s May 2023 Forecasts set out its five-year forecasts of the Scottish economy, tax receipts, social security expenditure and an assessment of whether the Scottish Government projections of borrowing are reasonable. The SFC’s most recent forecasts are slightly improved on its December 2022 forecasts, with economic growth at 0.3% in 2023-24 rising to 1.3% in 2025-26. Real disposable incomes per person are still expected to fall, by 4% by the end of 2023-24 due to high inflation. The SFC expects total spending to increase in nominal terms each year, and by 13% between years 2023-24 and 2028-29. By 2028-29, the capital

budget is expected to be 14% smaller than in 2023-24. Social security spend is forecast to increase from £5.3 billion in 2028-29 to £7.8 billion in 2028-29, and by 2027-28 the SFC expects the Scottish Government to spend £1.3 billion more on social security than the funding received from the UK Government through Block Grant Adjustments. Devolved taxes are expected to raise £20.1 billion of revenue in 2023-24, £384 million more than forecast in the SFC's December 2022 Forecasts. Income tax revenues have been revised upward in line with higher employment growth and higher nominal earnings growth, driven by inflation.

9. The May 2023 forecasts estimated an indicative negative reconciliation for Scottish income tax in 2021-22 of -£712 million, which has since been revised to -£390 million. In his letter to the Committee on [6 July 2023](#), Professor Graeme Roy notes that—

“The provisional reconciliation figure of -£390 million is the largest negative reconciliation so far and exceeds the Scottish Government's borrowing powers. While it is smaller than the indicative estimate of -£712 million we provided in May 2023, the Scottish Government will still need to carefully consider how to handle it.”

10. In her Foreword to the MTFs, the Deputy First Minister stated that—

“... my number one priority is to ensure the Scottish finances remain on a sustainable trajectory so that we can deliver first class public services for our communities, improve equality by reducing poverty and seize the opportunities of an economy that is fair, green and growing”.

11. The MTFs states that “tough and decisive action must therefore be taken to ensure the sustainability of public finances and that future budgets can be balanced”. It notes from modelling that “our resource spending requirements could exceed our central funding projections by 2% (£1 billion) in 2024-25, rising to 4% (£1.9 billion) in 2027-28”.

12. It also sets out the following three pillars which will underpin the Scottish Government's strategic approach to managing the public finances—

- **Focusing spending decisions on achieving the Scottish Government's three critical missions.** Alongside the 2024-25 Budget, it will refresh multi-year spending envelopes for resource and capital and extend the Capital Spending Review and Infrastructure Investment Plan period by one year, taking these plans up to 2026-27.
- **Supporting sustainable, inclusive economic growth and the generation of tax revenues.** The Scottish Government commits, ahead of the Budget 2024-25, “to explore areas such as seizing opportunities in areas where Scotland has a competitive advantage, such as the Green economy, and supporting entrepreneurs, start-ups and scale-ups; helping businesses to raise productivity; and further boost labour market participation including through an enhanced childcare offer”.
- **Maintaining and developing the Scottish Government's strategic approach to tax.** It has since established an external tax stakeholder group

this summer “to consider how best to engage with the public and other stakeholders on the future direction of tax policy, including whether a ‘national conversation on tax is required’. The outcomes will feed into the Budget 2024-25 and development of a longer-term tax strategy to be published alongside the MTFS in 2024.

Fiscal Framework Review

13. At the time of publication, the MTFS further confirmed that “the final version of the independent report on Block Grant Adjustments (BGAs) jointly commissioned by the UK and Scottish governments [to inform the Fiscal Framework] has been submitted to both governments for consideration, but the timing and arrangements for publication are still under discussion with the UK Government”.
14. On [2 August 2023](#), the Deputy First Minister wrote to the Committee confirming that “I have now reached agreement with the Chief Secretary to the Treasury (CST) on a package of changes to the Scottish Government’s Fiscal Framework”. The Deputy First Minister explained that she had judged it appropriate to concede to a narrower scope for the review (than the more fundamental review originally envisioned) “in the interest of securing long sought practical borrowing and reserve flexibilities, and to protect those arrangements that we already have in place which work in our favour”.
15. Alongside the letter, the Scottish Government published an [updated Fiscal Framework](#) agreed between the UK and Scottish Governments, as well as the [Independent Report](#) commissioned to inform the review. The Deputy First Minister’s letter summarises the main features of this agreement, including retaining on a permanent basis the indexed-per-capita mechanism for calculating block grant adjustments and increasing the resource and borrowing limits.
16. In his letter to the Committee of [11 August 2023](#), Professor Graeme Roy notes that the sustainability challenges identified in the SFC’s March report—

“are common across the UK, with the OBR projecting similar increases in health spending UK-wide. There are similar trends in other countries, with other fiscal institutions identifying rising costs in healthcare and demographic change as putting pressure on public finances. They would occur under any constitutional settlement or fiscal framework. The recent agreement by the Scottish and UK Governments on the Scottish Government’s fiscal framework makes the existing arrangements for calculating the block adjustments permanent. It therefore would not change the results of our FSR published in March.”

Inquiry

17. The Committee takes a cross-cutting, overarching approach to pre-budget scrutiny, while subject committees examine in detail those spending plans in their own portfolio area. This year, the Committee agreed to focus its pre-budget scrutiny on the sustainability of Scotland’s finances in both the short and longer-

term, reflecting the broader strategic and societal challenges highlighted in the SFC's Fiscal Sustainability Report, the limited capital expenditure available, and the impact of financial pressures on the delivery of both national outcomes and climate change targets.

18. This 2024-25 pre-budget scrutiny, which follows the Committee's recent inquiry into the Scottish Government's Public Service Reform programme, aims—
 - to develop a greater understanding of, and to scrutinise, the Scottish Government's plans to address the financial pressures on the Scottish Budget 2024-25 and beyond,
 - to establish how the Scottish Government balances its short and long-term financial planning and to identify any improvements in this area,
 - to influence the 'refresh' of the government's multi-year spending plans for resource and capital to 2026-27, to be published alongside the Scottish Budget 2024-25, and
 - to understand how the financial pressures might impact on the delivery of national outcomes and climate change targets, both in the short and longer-term, and to identify steps that the Scottish Government could take to alleviate these impacts.

19. The Committee held a call for views from 29 June to 18 August and received 26 responses, all of which have been published on the [Committee's web pages](#). SPICe has produced a summary of the main themes identified in the written submissions, which is attached at Annexe B.

20. The Committee's current inquiry into the Scottish Government's plans for public service reform, looks at Scottish public bodies' plans for reform in their sectors, how the reform programme is working in practice and how it is delivering effective and efficient services. The inquiry, which started in March 2023, included a written call for views and a series of oral evidence sessions taking place from May to September. This evidence-gathering was intended to inform the Committee's pre-budget scrutiny and its findings will be included in the pre-budget 2024-25 report. Further information on the Committee's public service reform inquiry and a summary of the broad issues raised by witnesses during written and oral evidence is available at Annexe C.

21. Evidence sessions with the SFC on its Fiscal Sustainability Report on [28 March](#) and Economic and Fiscal Forecasts May 2023 on [6 June](#), and with the Deputy First Minister on the Scottish Government's Medium-Term Financial Strategy on [13 June](#), were also intended to inform the Committee's pre-budget scrutiny.

22. In line with the Budget Process Review Group's recommendation that "enhancing public and professional understanding of the budget process should be a key objective for ... parliamentary committees engaged in budget scrutiny", the Committee held a public engagement event in relation to its pre-budget 2023-24 scrutiny. The engagement event took place in Largs on 30 August 2023 and the Committee heard from local representatives of public bodies, business, third sector and community organisations on their priorities for the Scottish Budget. A summary note of the discussions is attached at Annexe D.

Written submissions

23. [Professor David Bell's submission](#) to the Committee highlights four main points in relation to the MTFs and the SFC's projections. It states that—
- a. these are projections rather than forecasts,
 - b. they are based on a largely static spending and tax framework,
 - c. people generally place more value on losses rather than equivalent gains, and
 - d. “debates on the evolution of the fiscal gap result in a fixation on the cash inputs that support public services rather than on the outcomes of the services provided.”

He also looks at previous population projections to evidence the difficulty in making such estimates, particularly for the longer term and emphasises the significant uncertainty associated with such predictions, “which perhaps should be further investigated”.

24. [Professor David Heald notes in his submission](#) that “the message that the Scottish Parliament will face the most difficult period since devolution is credible”. He rejects claims that the Scottish Government has prioritised economic growth or demonstrated a strategic approach to tax, pointing to the “dysfunctional marginal rate of Scottish Income Tax schedule”. His submission argues that expenditure priorities should be more geared towards economic performance. In relation to capital budget, Professor Heald welcomes the uplifts in the updated Fiscal Framework, while calling for an improvement in the project management of capital projects. On the MTFs, Professor Heald remarks that this “contains an irritating amount of whingeing about the constraints of the current constitutional settlement [which he argues “sits oddly in a technical policy document”]. He suggests that this approach “will encourage the UK Government to ignore the substantive points which are made, particularly around the inadequacy of revenue borrowing powers to cope with the much greater fiscal risks deriving from devolved Scottish Income Tax.”

25. [The Fraser of Allander's submission](#) describes the ‘three pillars’ announced in the MTFs as relatively uncontroversial and highlights the risks associated with implementation. It argues the lack of a default method of indexation of tax thresholds “is not commensurate with strategic tax policymaking” and stresses that “continually searching for the perfect framework is less important than consistently applying one and making assessment against it transparent.” Their submission highlights difficulties in relation to the discussion on taxation, particularly in terms of a realistic timeline for implementation, with reform of council tax being given as an example. It also highlights that even if the Scottish Government was to raise the whole of the higher rate tax band, it would not raise nearly enough to plug the funding gap. Their submission argues for further transparency in the Scottish Government budget, calling for greater clarity on multi-year funding and spending assumptions beyond the end of the current spending review period, a baseline for comparisons of changes across years, a longer timetable for the budget process, a more forthcoming approach to the publication of financial memoranda and the publication of COFOG data, as well as how each spending line contributes to the Scottish Government's priorities in terms of outcomes.

26. [Living Streets Scotland's submission](#) argues in favour of investment in walking, cycling and public transport (in that order) and digital communication, stating that, “if measured correctly, this type of investment delivers substantially more economic benefit than conventional transport infrastructure”. It points to the burden on the NHS of an older and sicker population and notes that “whilst ageing is inevitable, ill health in later life is not, with healthy lifestyles and diet. Walking and exercise is critical, therefore under investment in streets and public places is a massive own goal.” Their submission calls for multi-annual budgets, noting that the current pattern associated with single-year budgets “has degraded strategic thinking, not least because evaluation of longer-term impacts is impossible when considered in terms of months not years.” It further calls for meaningful action around tax reform, including tourist taxes to support investment in basic infrastructure and workplace parking levies and road pricing as means of funding sustainable transport infrastructure and providing equity and access for people with and without cars.
27. In their submission to the Committee, [Public Health Scotland](#) highlights the continuing public health challenges Scotland faces, including poor health, health inequalities and an ageing population, all of which translate into increasing demand on services. It remarks that the burden of disease could rise by 21% in the next twenty years, which will add to the existing financial pressures and the long-term sustainability of the health and social care system. It sets out a number of key areas of focus for the Scottish Government such as the use of fiscal and legislative levers “to reduce unfair exposure to unhealthy commodities, such as alcohol, tobacco and unhealthy foods” and continuing to fund infectious disease and environmental risks, as preventative measures. Their submission reiterates PHS’ view that the National Outcomes / National Performance Framework are a vital part of delivering a shift to prevention and reforming public services.
28. Age Scotland’s 2023 Big Survey identified improved social care, better healthcare and respect and support for older citizens as the three top priorities for making Scotland the best place in the world to grow older. These are reflected in their [submission to the Committee](#), which recommends several priorities for the Scottish Government, including multi-year funding for third sector organisations, “the continued delivery of significant funding programmes and activities which connect people, such as older people’s groups, [...] building on and expanding the important work supported through the Social Isolation and Loneliness Fund” and “appropriate resourcing to address and reduce excessive waits for healthcare (including treatments and operations) and for social care assessments and packages, allowing both sectors to move from crisis-management to genuine preventative and proactive care”. Their submission further argues for support for older workers and recommends that the Scottish Government promote efforts to encourage and support younger workers to save for later life and retirement.
29. [Children in Scotland's submission](#) calls for “a clear line of sight towards how Scottish Government budgetary decisions promote progress towards the National Outcomes” and identifies key areas for action, including—
- transforming the National Performance Framework into a Wellbeing Framework and significantly strengthening its power and reach, and

- using devolved tax powers to share Scotland’s income and wealth more evenly and to support public investment in a strong social safety net, universal basic services, fair public sector wages and environmental improvements needed for a Wellbeing Economy.

Other areas of priority for Children in Scotland include funding for mental health support for children and young people, funding to ensure action on the delivery of The Promise, continued support to deliver the 1140 hours provision of Early Learning and Childcare as well as a focus on family support within the 0-2 age range and ensuring funding to prevent further climate change and achieve Net Zero.

30. The Committee received a [joint written submission from IPPR Scotland, Oxfam Scotland, Poverty Alliance, CPAG in Scotland, Scottish Women’s Budget Group, One Parent Families Scotland, and the Wellbeing Economy Alliance Scotland](#).

The submission, which has now been endorsed by 52 organisations, makes the case “for fairer and better tax to fund action on poverty and inequality, while investing in care and tackling the climate crisis”. It highlights ONS wealth statistics showing that Scotland “simultaneously has the lowest median wealth of any UK region but has the third highest most unequal distribution of wealth of any UK nation or region”, arguing that “Scotland’s vastly unequal distribution of wealth – as well as income – show the tax system has, to date, underperformed in promoting a more equal society.” The submission further makes the following recommendations for the Scottish Government—

- introducing a new and additional Income Tax band between the current Higher and Top rates, as pledged by the First Minister,
- a commitment to fundamentally reform the devolved tax system, within this parliament, which should start with the launching of a national consultation before the 2024-25 draft budget is published,
- launching a cross-party process to replace the current Council Tax before the end of this parliament in 2026,
- reforming property taxation as “a natural starting point for improving wealth taxation”,
- exploring opportunities to introduce new taxes that incentivise businesses in Scotland towards pro-social behaviour change, and
- exploring options to raise additional money for climate just action, “making polluters pay for their damage” and incentivise emissions reductions.

Next steps

31. The Committee will continue taking oral evidence in relation to this inquiry at its next meeting on 26 September 2023 and on 3 October, when it will hear from the Deputy First Minister and Cabinet Secretary for Finance.

Committee Clerking Team
September 2023

Written submissions of witnesses for 19 September meeting

Panel 1

- [Written Submission from Professor David Bell](#);
- [Written Submission from Professor David Heald](#);
- [Written Submission from the Fraser of Allander Institute](#).

Panel 2 (roundtable)

- [Written Submission from Age Scotland](#);
- [Written Submission from Children in Scotland](#);
- [Written Submission from IPPR Scotland, Oxfam Scotland, Poverty Alliance, CPAG in Scotland, Scottish Women's Budget Group, One Parent Families Scotland and the Wellbeing Economy Alliance Scotland](#);
- [Written Submission from Living Streets Scotland](#);
- [Written Submission from Public Health Scotland](#).

SPICe Summary of Written Submissions



SPICe The Information Centre
An t-Ionad Fiosrachaidh

Finance and Public Administration Committee

23rd Meeting, 2023 (Session 6), Tuesday 19
September 2023

Pre-Budget scrutiny 2024-25: The Sustainability of Scotland's Finances

Summary of written submissions

Introduction and purpose of paper

The Committee agreed to focus its pre-budget scrutiny this year on the sustainability of Scotland's finances in both the short and longer-term, as well as drawing on evidence gathered from its earlier [Public Service Reform inquiry](#).

The Committee issued a call for views over summer recess, and received 26 submissions. [All submissions can be found on the Parliament's website](#).

This paper provides a summary of the main themes from the submissions. It does that in two ways:

- By grouping questions asked by the Committee in its call for views into broad themes and using automated text analysis to draw out the overall message and sentiment from the submissions.
- Picking out key quotes from the submissions, again under the four broad themes identified, along with signposting towards particularly noteworthy proposals presented in detail in specific submissions.

Some respondents chose not to answer the Committee's specific questions, and/or not use the submission software. There is a separate section of the paper looking at text analysis from these submissions, although relevant quotes have been added under the themes where possible.

With the automated text analysis, two charts are included under each theme:

- A “wordcloud”, which the Committee will likely be familiar with – this shows the frequency of words used in the submissions, excluding certain very regularly used words.
- A “network map”, which shows the frequency with which words are connected to each other. A darker line indicates a stronger, more regular, connection.

SPICe would welcome feedback from Members on this approach.

Theme 1: overall approach to short and medium term financial pressures

Two questions from the Committee’s call for views are included under this theme:

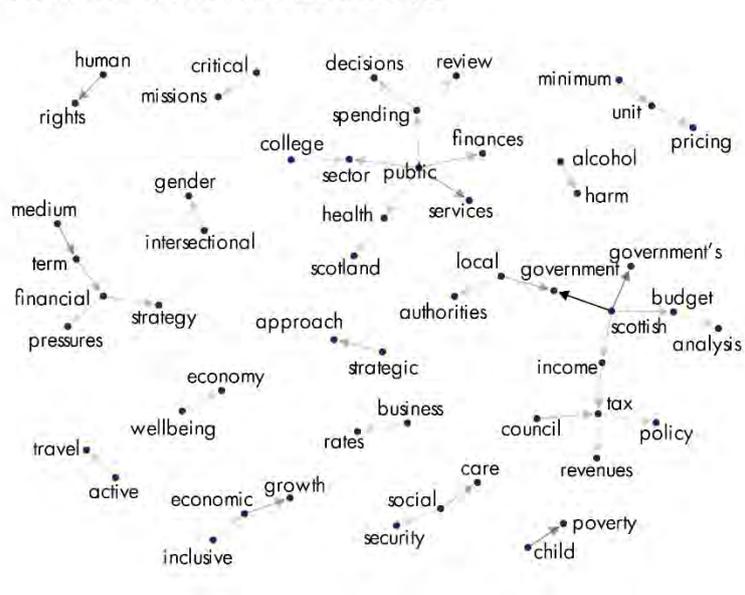
8. How should the Scottish Government’s Budget 2024-25 and its future budgets respond to these challenges?
9. Does the Scottish Government’s ‘three pillars’ strategic approach to managing the public finances adequately address the scale of financial pressures expected in the Scottish Budget 2024-25 and in the medium-term? Should the Scottish Government follow a different approach instead, and if so, why would that be more effective?

Text analysis of responses to these questions:

Top 25 most frequent words



How the words are connected



In response to the questions on the government’s overall approach, and its three pillars approach, it’s not surprising that words like “tax” and “public” “spending” feature heavily, as well as “poverty”, and “economy/economic” “growth”. Some specific points made strongly by individual submissions also come through,

especially in the network map – things like “intersectional gender” (budgeting) and “alcohol harm” – these are explored in the quotes below.

Relevant quotes from the submissions:

Fraser of Allander Institute: “... it is clear that the Scottish Government faces tough economic prospects: a slowing economy which is likely to have consequences for its main tax revenue streams and a tight Spending Review allocation from the UK Government, while high inflation increases pressure on both pay and procurement, the two largest areas of spending.”

On tax, **the FAI** noted that “While there have been hints at potential future wealth taxes, they look very difficult not just in the context of devolution, but in terms of any realistic timeline for implementation. The Scottish Government already has responsibility for council tax, which is intended to be a tax on the value of properties. But the valuations that form the tax base are so old (1991) that it bears little relation to them, and despite numerous attempts, reform has not yet taken place, and is likely to be difficult because of the large number of potential losers – especially if it were intended to raise revenue in net terms.”

Audit Scotland, on behalf of the Auditor General for Scotland: “Given the urgency of reform, both for financial sustainability and more effective service delivery, the status of these reforms should be clearly reported at least annually, with the financial impact of any delays and overspends reflected in future budgets and medium-term plans ... Both the Auditor General and the Accounts Commission have highlighted previously how difficult it is to reform public services, for example in their papers on health and social care integration, Scotland’s colleges, drug and alcohol policy, and police and fire reform. Audit work has consistently shown a major implementation gap between policy ambitions and delivery on the ground.”

The STUC: “the Scottish Government can and should do more to raise tax in order to reduce inequality, invest in our public services and tackle climate change. STUC research from last year shows that the Scottish Government could raise more than £3 billion through a package of short and long-term tax measures.” These include increases to the top rate of income tax and an additional band, increases to high value council tax properties, and in the longer term a wealth tax, carbon emissions land tax and more.

Child Poverty Action Group Scotland: “The Scottish government must ensure it has the additional revenues needed to meet all the commitments it has already made to tackle child poverty, as well as to fund the further action needed to meet child poverty targets ... The approach to economic growth and the generation of tax revenues (pillar 2) must be focussed on ensuring growth simultaneously reduces child poverty. This means ensuring the kind of jobs created and sustained in our economy are decent, accessible, financially rewarding and family friendly. Child poverty is inextricably linked to women’s poverty and gender inequalities in the labour market.”

Citizens Advice Scotland: “public spending in Scotland should reflect the principles outlined in the Christie Commission, particularly around preventive spend. This is why we would outline the reduction and eventual eradication of poverty as being a central element in public spending decisions.”

The ALLIANCE: “The principles of human rights budgeting go beyond simply the setting of the budget and can be applied to scrutiny, and we would similarly encourage the Finance and Public Administration Committee to apply the principles to their pre-budget scrutiny. Human rights should be recognised as a golden thread, relevant to all areas of government and parliamentary activity, and should be a focus for scrutiny every year.”

Alcohol Focus Scotland: “we propose that the Scottish Government use its fiscal powers to raise revenue from the sale of alcohol, making the ‘polluter pay’, to fund public services, including improved recovery-oriented services. An alcohol harm prevention levy could be applied to retailers licensed to sell alcohol via a supplement on non-domestic business rates.” More detail on this proposal is provided in submission

Scottish Women’s Budget Group: “A key point to ensure that the Scottish Government’s Budget 2024-25 and any other future budgets better respond to the challenges posed by financial pressures is to make use of intersectional gender budget analysis across all policy portfolios. ... Intersectional Gender Budgeting is an approach to budget analysis focused on achieving equality by analysing the effect that the collection and spend of public resources has on women and men. It also recognises how other characteristics may affect women and men’s lived realities, such as age, socioeconomic situation and background, disability, race, ethnicity, religion and rural or urban location.”

Federation of Small Businesses: “the Scottish Government budget needs to be designed specifically to help smaller businesses weather the storm, take particular account of their needs, and use every lever at its disposal to keep overheads down. ... There is not an abundance of breathing space for many small firms, and the position is exacerbated by the fact that, in many key markets such as energy, they have a bargaining position more akin to that of a domestic consumer but enjoy fewer protections than those afforded to households. ... To help consumers and businesses, both Governments could consider raising the VAT threshold from £85,000 to £100,000. This move could cushion the some of the hardest blows of inflation, preventing tax increases from exacerbating the impact of price hikes on businesses and in turn, their customers.”

STUC: “On economic growth, we recognise the need for economic development that creates well-paid, good, unionised jobs, and creates tax revenues. However, the way in which this is done is crucial. Investment in infrastructure – whether that be childcare or public transport – plays a critical role in supporting positive economic

development. Blanket tax reliefs to companies, whether they provide Fair Work or not (such as the Small Business Bonus Scheme), does not.”

Professor David Heald: “The message that the Scottish Parliament will face the most difficult period since devolution is credible. Enough damage has already been done by the lack of attention to the marginal rates of combined Scottish Income Tax and National Insurance Contributions, so much greater attention should now be paid to what can be done to alleviate problems within the existing powers of the Scottish Parliament ... Although it is reasonable to structure policy-making in terms of missions and pillars, the danger is that these become so general that the specific content is unclear. I do not accept that the Scottish Government has prioritised economic growth or has demonstrated a strategic approach to tax. If this had been the case there would have been much more attention to the dysfunctional marginal rate of Scottish Income Tax schedule and to the fact that a very large proportion of Scottish Income Tax revenues come from the upper end of the income distribution.”

COSLA, SOLACE and CIPFA Directors of Finance Section made a wide range of comments in this area, including: “The approach taken in Scottish Budgets in recent years has meant continuing to focus funding in areas where things have already gone wrong in people’s lives, rather than providing funding to stop them going wrong in the first place. By contrast, Local Government services - like housing, education, childcare, employability, and leisure and culture - play a significant role in preventing poor health outcomes, reducing demand for healthcare services, supporting people into employment and helping to reduce dependence on the welfare system.”
And: We welcome the Scottish Government's commitments as part of the Verity House Agreement ... Fulfilment of these commitments will require a significant shift in approach to the funding of Local Government but has the potential to substantially address the concerns we have raised in this and other submissions and crucially, support Councils in delivering positive outcomes in relation to our shared policy priorities.”

On outcomes, **COSLA, SOLACE and CIPFA Directors of Finance Section:** “The focus of the approach must shift from input measures to outcomes. There remains a continued focus on short term input measures and outputs rather than outcomes when it comes to public spending. This drives behaviour and spending in ways that are not necessarily best value. An industry has been created to track spend however there is little evidence that this has added value, at the expense of understanding the outcomes achieved and if spending is in the right priorities. This is exacerbated by the number of different policy announcements from within the same or different government portfolios which lack a cohesive and joined up approach to improving outcomes.”

South Lanarkshire Council: “Other than Scottish Government, Local Government is the only part of the public sector with a footprint covering so many inter-related aspects of population wellbeing, the economy and the climate change and sustainability agenda. However, funding arrangements limit the ability of Councils to

Relevant quotes from the submissions:

Audit Scotland, on behalf of the Auditor General for Scotland: “The Scottish Government’s decisions on prioritising or de-prioritising spending should be based on a clear understanding of the impact these changes will have on the outcomes that it wishes to achieve. ... To do this, Scottish Government will need to have sufficient data available to identify how particular spending programmes work towards its priorities, and to ascertain that programmes it supports are the best use of public money to achieve its goals.”

COSLA, SOLACE and CIPFA Directors of Finance Section: “Within the current financial context, we will not meet zero emission or net zero targets by 2038 or 2045 respectively - a radical overhaul of how we deliver net zero policy is required. This will require new investment, but with scarce resources funding must be aligned against the most critical programmes in the high-carbon sectors of transport and heat and must take the unavoidable decision of deprioritising other areas. It is also necessary to factor in the significantly higher revenue costs of decarbonised heat sources, which are frequently higher than gas and the impact this will have for ongoing budgets. The scale of this challenge is perhaps best illustrated by the experience of one Council who have estimated that the cost of reaching zero emissions on their nondomestic estate would be in excess of £1.2bn – a figure equivalent to more than twenty-five times the size of that council’s 2023/24 General Capital Grant allocation.”

Professor David Heald: “There is a considerable amount that the Scottish Government itself can do. First, the project management of capital projects must be improved, for which a prerequisite is understanding what has gone wrong on existing projects. It is important to distinguish between problems associated with the types of projects undertaken by Scottish public authorities and problems that derive from the public sector not being competitive in the market for project management talent. Second, the erratic profile of capital availability has made it difficult for public authorities to maintain in-house project skills. In less-pressured times, leading Scottish local authorities were able to display agility in commissioning capital projects when funds became suddenly available.”

Professor Heald also noted that: “the political climate makes it difficult for the Scottish Government to set any social security benefit below the level applicable in England. Second, the demand-led nature of such expenditure, recognised in the UK distinction between Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME), places unpredictable pressures on the Scottish Budget because devolved social security expenditure is treated as DEL not as AME. In England, it remains AME.”

Scottish Council for Voluntary Organisations (SCVO): “Scotland’s voluntary sector is an employer, a partner, and a vital social and economic actor. It should be of significant concern to the Scottish Government and Scottish Parliament that this crucial sector – which employs over 135,000 paid staff and works with more than 1.2 million volunteers– remains under severe pressure. The pandemic, inflation, and the resulting cost-of-living and running cost crises have strained sector finances and increased demand for the support and services of many organisations.”

SCVO also set out a detailed 14 point set of recommendations around multi-year funding, transparency and more and further noted that “Despite commitments in previous Programmes for Government and cross-party support for multi-year funding across the Scottish Parliament, there has been little progress on these issues, and we have yet to see a clear plan on how the Scottish Government will make good on its latest commitment by 2026.” Again, SCVO provides specific recommendations in its submission.

Child Poverty Action Group Scotland: “The Scottish Government must increase the Scottish child payment to at the least £30 per week from April 2024, as committed by the First Minister. However, to be sure of bringing child poverty below the interim target level a £40 Scottish child payment is needed.”

Living Streets Scotland: “Degraded facilities for walking pose huge down stream risks to the NHS, in terms of older people’s health declining through lack of exercise. The cost of trips on falls to the NHS is another area where the implications of underfunding in local transport infrastructure isn’t understood.”

The ALLIANCE: “The ALLIANCE would urge spending on essential services including health, social care and social security to be protected and prioritised in this and future budgets. Spending in these areas supports wellbeing, reduces poverty, and helps to realise human rights. We would also wish to see adequate and sustainable support for third sector organisations. The financial situation facing third sector organisations has been difficult for several years, particularly as a result of short term funding arrangements.”

Citizens Advice Scotland “CAS would strongly argue for energy efficiency spending to be protected in capital budgets. The climate emergency won’t become less of an urgent priority because of Scotland’s shifting demographic population and investing in energy efficiency measures will create or sustain jobs to contribute to economic growth and in the long term better insulated homes will pay less for energy – if that isn’t seen as an urgent priority after the year consumers in Scotland have faced due to the energy crisis then it is hard to see when it ever will.”

Scottish Women’s Budget Group covered these issues in a lot of detail, and included recommendations in a range of areas, including that “An intersectional gendered analysis of these figures makes it obvious that women, especially disabled women and single parents, are at the losing end of the current economic crisis. The Scottish Government must prioritise spending on policies designed to protect women from the effects of inflationary pressures.” The SWBG includes specific policy recommendations in its submission.

Fraser of Allander Institute: “A big issue in the UK’s public sector delivery of capital projects is the ability to actually deliver investment, despite it being budgeted for in advance, as OBR analysis shows. Underspends tend to be large due to delays, especially in getting projects up and running. The Scottish Government will need to consider whether to prioritise existing projects or new ones, with all the risks that either would entail.”

COSLA, SOLACE and CIPFA Directors of Finance Section: “Where capital projects are critical and there is not the necessary capital funding available, Local

Government may find it is in a position where it is required to borrow more for capital projects committing to revenue payments over the long term which impacts on the budget available year to year for in year revenue costs for service delivery as part of the revenue budget is committed to repaying the debt. Given the significant increases in interest rates this is a much higher pressure than previously and may not be affordable.”

Comhairle nan Eilean Siar: “The implications of a declining capital budget are severe as has been seen across Scotland in recent years with a halt to new investments, even where these would deliver public service reform, and in an ongoing and serious decline in asset quality, particularly in roads and building maintenance.”

South Lanarkshire Council (SLC): “From a local government perspective, capital grant allocations have seen significant cuts in recent years with almost 30% cuts in grant. This has meant that the replacement and renewal of assets is simply not happening more often than not. This results in increasing revenue costs to maintain and operate our assets, so these become unaffordable and increase the imperative to withdraw services and close facilities. While councils can borrow, there is a hugely reduced scope to fund borrowing through revenue budgets.”

SLC also stated that: “There is an argument to be made that increased spending on health on its own has not improved health outcomes and that actually the increased demand for health services is exacerbated by the loss of preventative services offered by local authorities. Better outcomes would result from prioritisation of the type of preventative work in which local authorities can lead and excel.”

Colleges Scotland: “The current funding of colleges is not sufficient enough to ensure adequate economic growth, especially in Green Skills areas where more investment is required. There is an inherent need for funding to reflect the value and significance that colleges bring to the economy of Scotland.”

Theme 3: longer term financial challenges

Four questions from the Committee’s call for views are included under this theme:

13. The Scottish Government plans to address the budgetary implications of the expected long-term fall in population through growing the economy and tax base, public service reform, and an upcoming ‘Addressing Depopulation Action Plan’. Are these the right priorities to address the implications of this fall in the population and, if not, how could the Scottish Government be more effective in this area?

14. How should the Scottish Government start to address the forecast funding gap of 1.7% each year up until 2072-73?

15. How should the Scottish Government balance its short and long-term financial planning and where can improvements in this area be made?

projected by the Office for Budget Responsibility and the Scottish Government would not be allowed to sustain the budget gap projected by the Scottish Fiscal Commission.”

Professor Heald also stated that: “The Scottish Government’s Medium-Term Financial Strategy (May 2023) contains an irritating amount of whingeing about the constraints of the current constitutional settlement. This sits oddly in a technical policy document. This feature will encourage the UK Government to ignore the substantive points which are made, particularly around the inadequacy of revenue borrowing powers to cope with the much greater fiscal risks deriving from devolved Scottish Income Tax.”

Fraser of Allander Institute: “An ageing population will mean a higher proportion of the population being above retirement age, and therefore a smaller proportion of the population will be available to work and provide tax revenues. At the same time, as people age, they tend to require more frequent and more expensive health care, which will mean further pressures on the health service.”

The **FAI** went on to say that “...if one assumes that the UK Government will take action to avoid the public finances continuing on an unsustainable path, the Scottish Government’s funding gap looks very different. The SFC’s illustrative projection for a UK Government adjustment split equally between tax and spending would put the annual funding gap for the Scottish Government at an average of 10.1% of total spending a year as a result of lower Block Grant higher Block Grant Adjustments for tax. More or less spending-focussed adjustments might create slightly different results, but the direction of travel is fundamentally the same.”

The STUC: “While the STUC is not opposed to reform to improve public services, reform should have an aim of strengthening public services rather than trying to ‘do more with less’. Genuine reform, rather than reform as code for cuts, is best undertaken in conjunction with workers and their trade unions alongside increased investment in both overall size and the remuneration of the frontline workforce.”

The STUC also noted that: “A number of Scotland’s national outcomes are showing performance declining, while Scotland has missed its climate change targets eight times in the last 12 years. Clearly financial pressures, caused in large part by the UK Government, will only make this situation worse. As well as increasing taxes, and investing in public services there is a pressing need to ensure that the Scottish Government maximises the impact of its spending programmes – ensuring that the billions of pounds spend on public procurement, grants and funding programmes delivers Fair Work and important social outcomes. Despite positive initiatives in this area, too often this is not the case.”

The ALLIANCE: “Public sector reform has the potential to significantly reduce financial pressures, but it must be undertaken with the aim of improving outcomes and upholding human rights, not simply cost-cutting. Failure to properly invest in public services, and in particular preventative services, may instead result in additional costs in the longer term. It is nonetheless clear that some services require significant reform, in particular social care.”

Alcohol Focus Scotland: “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.”

Children in Scotland: “It is important to recognise the importance placed on tackling the climate crisis for children and young people. We know it is an area they are highly invested in and want to see clear action on.”

COSLA, SOLACE and CIPFA Directors of Finance Section: “Depopulation represents a problem for Councils as there are many statutory duties and service which must be provided, regardless of population size. This means that there are still significant fixed costs, a reducing ability to benefit from economies of scale and reduced income streams all culminating to create increased financial pressure. ... It is worth noting however, in contrast to the national picture of depopulation, some areas such as the Lothians are projected to see substantial increases in population, bringing very different challenges and requiring substantial additional resources in order to provide local services to more people and households. Recognition of these changing challenges should be factored into budget discussions alongside a commitment to support other areas which are facing depopulation and indicate that fundamentally there are not enough resources to provide services for the population across Scotland.”

South Lanarkshire Council: “Having delivered efficiencies for more than a decade in response to real-terms cuts to core funding, increasing policy direction from Scottish Government and limits on Councils' ability to raise revenue, any 'easy' savings have been made – any further reductions will have a major impact on services and jobs. There is also the potential for over-estimating the savings that can be made through, for example, estate rationalisation – cuts to premises may lead to higher costs and other negative impacts elsewhere, for example as a result of reduced access to services.”

Comhairle nan Eilean Siar: “Depopulation needs to be addressed and the challenge is particularly acute in the Western isles which faces long term population decline and a demographic imbalance. An Action Plan would be welcome and the Comhairle suggests that those areas such as the Western isles which are facing the steepest population decline be prioritised.”

Federation of Small Businesses: “When addressing depopulation, it is important that the Government also considers the business population and how it can play its part in growing the economy and wider tax base. Our survey findings show that more than half of the businesses who responded do not feel Scotland is currently an attractive place to start up a business. With more than two thirds (68%) citing the state of the economy as a main barrier to starting up a business and 44% citing lack of government support.”

Theme 4: transparency around budgetary decisions

One question from the Committee's call for views is included under this theme:

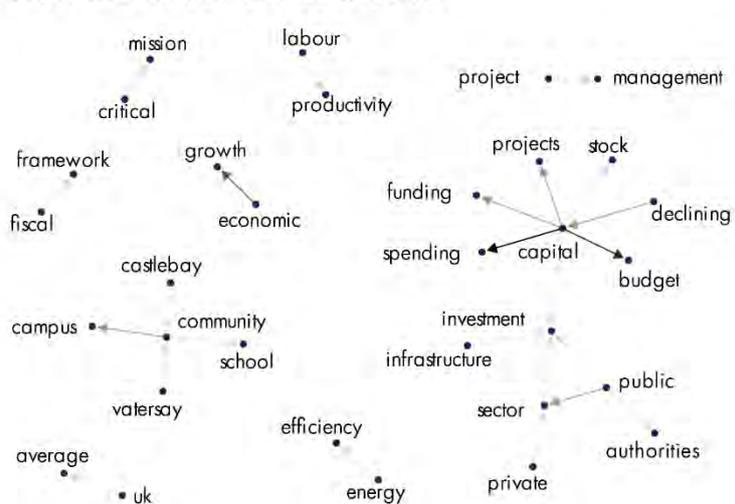
17. In follow-up to the Committee's inquiry on effective decision making, how can transparency be improved around how the Scottish Government takes budgetary decisions?

Text analysis of responses to these questions:

Top 25 most frequent words



How the words are connected



On the transparency question, caution needs to be taken as fewer submissions responded in detail. Obviously words like “transparency” and “data” are included. Notable perhaps is the focus on capital.

Relevant quotes from the submissions:

Audit Scotland, on behalf of the Auditor General for Scotland: “There is limited publicly available information about how the Scottish Government takes budgetary decisions. ...In the past, Audit Scotland has identified that when it is taking funding decisions, the Scottish Government should to consider and set out more clearly what it intends achieve for the funding provided, and how this impact would be measured. This would help ensure resources go to where they can best provide value for money and have the maximum benefit in achieving outcomes. This would help decision making, transparency around budgetary decisions and improve overall outcomes.”

Scottish Women's Budget Group: “There is a concern that EQIAs can often be retrofitted to the policy process rather than being an integral part of the decision-making process. The Committee has an important role to play in ensuring the Government meets its commitments to transparency and holding Government to account in the forthcoming budget cycle. In this regard, the Committee should:

- Ask the Scottish Government for evidence as to how EQIAs influenced the different revenue allocations in the Budget.
- Ensure that EQIAs include a plan to monitor progress towards intended outcomes,

- Follow up any monitoring reviews planned by the Government and provide feedback.”

Fraser of Allander Institute: “A critical issue that would improve transparency is the baseline for comparisons of changes across years. Currently Scottish Government publications tend to compare new plans for spending with previous year’s plans, rather than estimates or outturns. This has two fundamental consequences. The first is that because it is not what is used by other sources (e.g. SFC), it creates confusion in the public debate because if plans have changed in the meantime (as they often do through Main Estimates and Supplementary Estimates) then the figures used by the Scottish Government and the SFC will differ, which is not conducive to a transparent public debate. But comparing plans with plans also misses any insights on in-year budget execution and whether planned spending actually takes place. Analysis at UK level by the OBR suggest that there are significant underspends of DEL allocations, particularly on capital, and it is important that the Scottish Government publish this information in a way that makes it easy to understand how much is actually being spent. This information is reported to the Treasury and ONS as part of the Public Sector Finances release, so it would be good for the Scottish Government to also include it in its releases.”

Professor David Heald: “Despite the difficult circumstances in terms of budgetary pressures and decision-making timetables, there is scope to improve the budgetary documentation which goes to the Scottish Parliament. In previous submissions to this Committee and to the Scottish Government I have argued that budget documentation should set out clearly the additional costs of ‘above-parity’ expenditure and the reduced costs from ‘below-parity’ expenditure. In practice, the former are expensive and the latter, if they exist, minimal. This is not to argue against policies such as free university education for Scottish residents or for free prescriptions, but to argue that these costs should be transparently reported. Some of these items are effectively demand-led and very difficult to control once the policy is established. As with above-parity social security benefits, these take resources away from core public services such as health, education and local government.”

Colleges Scotland: “College students deserve parity of investment and Colleges Scotland has consistently called for stronger, longer-term funding to help colleges thrive. The gap between secondary school, college and university funding should be closed as soon as possible. ...Currently, college funding is to cover the teaching element, but colleges require additional resource to ensure a great student experience, equity of opportunity and to ensure the necessary support for those cohorts of students requiring additional interventions.”

Scottish Council for Voluntary Organisations: “Transparency can be significantly boosted by publishing grant data in user-friendly formats. The UK Government’s initiative of providing a Government Grants Register and using the 360Giving platform is commendable. The Scottish Government can mirror this approach, ensuring alignment with the 360Giving data standard.”

Age Scotland: “Transparency can be improved by boosting the ease with which individuals and organisations can engage with the budget process. Currently, it is not straightforward for members of the public to engage with the budget process, and unless you have previous experience it can be daunting and inaccessible. If you are

a member of the public, it is hard to see how you would effectively engage or be heard. If you are not digitally connected, it is even harder to engage with the process or access documentation in the first place.”

Alcohol Focus Scotland: “Since the 2023-23 budget, alcohol use has been recognised as a public health emergency alongside drugs deaths, and although increased investment is welcome, one cannot see what is being spent on alcohol. There is a constant conflation of investment for drugs with alcohol. Without knowing how much money was spent on alcohol and where it was spent, it is difficult to say where further investment is needed and whether investment is resulting in returns for the people of Scotland.”

STUC: “While not purporting to provide an exhaustive list, Scotland’s decision making could be improved through investment in the civil service, improvement to social partnership structures, and devolution of financial power and responsibility to levels of government responsible for making decisions.”

Other submissions

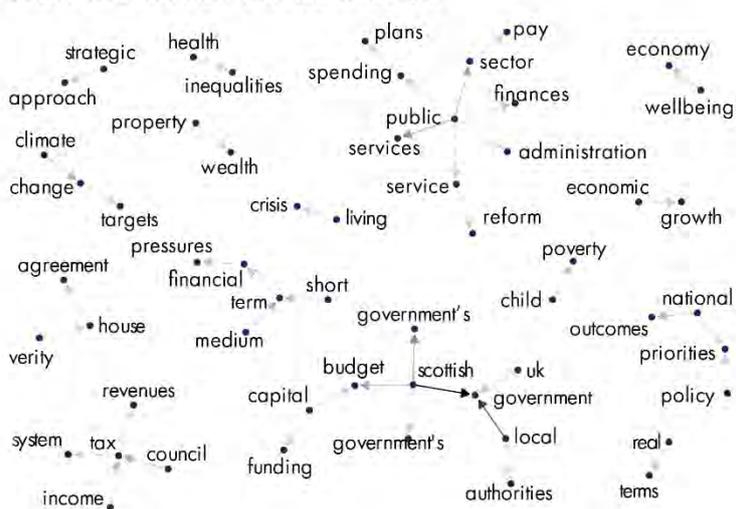
As noted above, some respondents chose not to answer the Committee’s questions, or they submitted a PDF document covering some or all of the questions. Where these submissions answered specific questions, key quotes have been included under the themes above. Otherwise, text analysis and short summaries of key quotes are set out below.

Text analysis of responses to these questions:

Top 25 most frequent words



How the words are connected



This is text analysis from all submissions who used a PDF, rather than the submission software, so covers some who answered some questions, and some which did not. It therefore covers a wider range of issues – again a focus on tax and spend, with the focus on “local” and the “verity house agreement” coming from the very detailed COSLA, SOLACE and CIPFA Directors of Finance Section submission. Relevant quotes from the submissions:

COSLA, SOLACE and CIPFA Directors of Finance Section made a very detailed submission. They have included a useful summary of key points at paragraphs 7-14. Some quotes are included above under relevant questions.

Professor David Bell, in a personal capacity covered four points relating to the Scottish Government and SFC projections for the economy and provided detailed analysis. The four points are that:

- These are projections rather than forecasts.
- They are based on a largely static spending and tax framework.
- People generally place more value on losses rather than equivalent gains.
- Concentration on inputs rather than on outcomes.

IPPR Scotland, Oxfam Scotland, Poverty Alliance, CPAG in Scotland, Scottish Women’s Budget Group, One Parent Families Scotland, and the Wellbeing Economy Alliance Scotland submitted a joint briefing note “on the need for fairer and better tax to fund action on poverty and inequality, while investing in care and tackling the climate crisis.” Specific proposals include a redesign of income tax, replacement of council tax, introduction of a wealth tax and potentially introduction of new taxes.

Public Health Scotland’s submission noted that “While we fully appreciate the challenges facing the Scottish Government, PHS concludes that there is currently a major opportunity to change the way the public sector works and reports on its progress. This shift would require a fundamental rethink, with improved ways of working and a commitment to greater transparency helping to drive investment in for the people and places that need it most.”

Allan Campbell, Head of Research and Financial Scrutiny
Andrew Aiton, Data Visualisation Manager, SPICe Research
12 September 2023

Note: Committee briefing papers are provided by SPICe for the use of Scottish Parliament committees and clerking staff. They provide focused information or respond to specific questions or areas of interest to committees and are not intended to offer comprehensive coverage of a subject area.
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Background to and summary of themes arising from the Committee's inquiry into the Scottish Government's public service reform programme

Background

1. This paper sets out background information in relation to the Committee's inquiry into the Scottish Government's public service reform programme and highlights themes arising from this scrutiny to inform the Committee's pre-budget 2024-25 inquiry into the Sustainability of Scotland's Finances.

Inquiry

2. On 6 March 2023, the Committee launched an inquiry into the Scottish Government's plans for public service reform, with the following remit:
 - to develop a greater understanding of the Scottish Government's public service reform programme,
 - to bring greater transparency to the aims of the programme and measures put in place by the Scottish Government to support public bodies to achieve these aims,
 - to track progress in delivering public service reform by the Scottish Government and public bodies over the remainder of this parliamentary session until 2026, and
 - to examine the outcomes of the public service reform programme, including effectiveness, efficiency, and impact on public service delivery.
3. The Committee's [call for views](#), which opened on 6 March 2023, sought written submissions from Scottish public bodies on their plans for reform in their sectors. It also requested views from others with an interest in how the reform programme is working in practice and on the extent to which the programme is delivering effective and efficient services. The Committee received [32 written submissions](#) to its call for views. [A summary of evidence received has been produced by SPICe](#). The Committee held evidence sessions as part of this inquiry from May to September 2023¹. Official reports of these evidence sessions are available on the [Committee's web pages](#) and a summary of key issues raised at each evidence session can be found in the [Committee's 12 September meeting papers](#).
4. The Scottish Government has stated that "balancing the budget will require difficult decisions and reform". It has further indicated that "our programme of reform will be accompanied by a clear financial strategy, taking account of

¹ Evidence was heard at meetings on 23 and 30 May, 6, 20 and 27 June, and 12 September 2023.

significant changes, available resources and expected cost pressures including demographic changes, technological advances and inflation, as well as considering necessary mitigations”.

5. Against this background, the Committee has agreed to use the evidence gathered as part of its public service reform inquiry to inform its pre-budget 2024-25 scrutiny on the Sustainability of Scotland’s Finances, including evidence sessions and the findings in its report. A summary of the broad issues raised in evidence is therefore provided below:

- The Scottish Government needs to provide a vision, oversight, direction and underpinning investment for its reform programme, as well as a sense of purpose and clarity on the intended outcomes. It should seek meaningful feedback from the public through an “honest conversation” about the financial challenges being faced, what the public would like to see from their public services, which reforms are required to deliver these services and which organisations are best placed to deliver them.
- Without a ‘mandate’ the delivery of cost savings and improved services “will not happen”. An incentive to collaborate is also needed otherwise people “tend to pick off the bits round the side that do not threaten their own jobs”.
- Achieving efficiencies as part of managing budgets is not genuine reform and carrying out reform at a time of financial pressures will not achieve effective change or sustainable delivery of services.
- There are skills shortages in the ‘digital data space’ in the public sector, where “we are all fishing in the same pool for the same capability”. Smaller bodies are at a “massive disadvantage in negotiating with private sector suppliers”. Pooling these kinds of resources could help transform public services.
- Data sharing, automation of processes, and using artificial intelligence and common systems across public services would enable “powerful collaboration”, deliver efficiency and improve quality.
- A wider national steer and subsidy leverage is needed to ensure robust digital infrastructure, including equity of digital position across all bodies.
- Ring-fencing a group of experts from public bodies with reform as their primary focus would “see some really positive movement”.
- Corporate reporting should be used to demonstrate how bodies are making progress against reform objectives.
- ‘Cultural friction’ can occur when bodies are brought together into one structure. Early and continued effort and engagement with staff and stakeholders is required to avoid or minimise this.
- The cluttered landscape of public bodies needs to be addressed.
- More focus is required on complementary reform and collaboration across local government and public bodies, focused on what services are needed and moving funding around to how they are best delivered.
- Concerns were raised by local authority representative bodies regarding the potential for greater sharing of services across councils within what they argued was a complex structure. However, those local authorities who gave evidence highlighted that collaboration between neighbouring

councils is occurring on shared services, systems and teams. They also noted further potential to create single national functions that serve all authorities, e.g., for rates collection and public analysis, as well as on progressing a single island authority.

- A focus on prevention and early intervention is vital, however with results often not seen for several years, this can be politically challenging within electoral cycles.
- Lessons can be learned from the experience of working during the Covid pandemic where public bodies worked closely with local authorities and the third sector to deliver services more quickly, effectively, dynamically and within reduced bureaucracy. A trade-off was more limited consultation.

Summary note of engagement event

Finance and Public Administration Committee

Sustainability of Scotland's Public Finances

Engagement Event, Wednesday 30 August 2023, in Largs

The Scottish Parliament's Finance and Public Administration Committee held an engagement event in Largs on 30 August 2023 to discuss the priorities of participants for the Scottish Budget 2024-25 and beyond, given the financial and demographic challenges ahead. Members of the Committee led discussions in five separate groups with attendees representing the business community, public bodies, local authorities, local health organisations, community groups and the third sector.

The Committee thanks all those who gave up their time to attend and contribute their views. A full list of organisations who participated in the event is included at the end of this note.

The agenda for the event was as follows:

- Presentation by Professor Graeme Roy, Chair of the Scottish Fiscal Commission, on the sustainability of Scotland's finances and the challenges ahead, including an ageing population, growing healthcare spend, and an annual budget gap.
- Discussion in groups on their priorities for the Scottish Budget next year and in the future.
- Presentation by Professor Mairi Spowage, Director of the Fraser of Allander Institute and Budget Adviser to the Committee, on the Scottish Government's current priorities of:
 - Equality: **Tackling poverty and protecting people from harm**
 - Opportunity: **A fair, green and growing economy**, and
 - Community: **Prioritising our public services**.
- Discussion in groups on whether the Government's priorities are the right ones and, in light of the presentations and earlier discussions, agreement in each group on three priorities for the Scottish Budget.

This paper includes summary notes of each of the discussions that took place in the five groups. The format of each summary note reflects the structure of those particular discussions.

Summary note of discussion with businesses, led by Liz Smith MSP

Representatives from businesses gave their thoughts on Budget priorities. Concerns were raised regarding the lack of mention of businesses within the Scottish Government's current priorities. Participants felt that priority should be placed on outcomes rather than on inputs. For example, the group felt that health and wellbeing is an outcome which results from creating wealth, and that priority should therefore be given to creating the wealth.

Participants identified three top priorities for the Budget. These priorities were as follows:

1. Education and skills development

Participants emphasised that skills development should be a priority. They stated that, in Ayrshire, 1 in 20 young people are not in employment or further education. They considered that too much focus is placed on academic skills and getting young people into college or university rather than into work. The group suggested that careers guidance in schools should be improved. They felt that supporting representatives from businesses to get involved within schools would also be beneficial.

The group suggested that structural changes around skills development are needed. This change should be encouraged by integrating skills development into the school curriculum shifting towards more vocational skills. Participants expressed that they have found organisations such as Skills Development Scotland and Education Scotland to be apathetic about making changes to fill the gap between school curriculums and the skills that employers look for. The group expressed the need for parity of esteem between career pathways, and that this parity of esteem should be reflected in funding decisions.

Participants described difficulties they have experienced in finding people to fill jobs due to a lack of skills and people becoming increasingly removed from the labour market and not applying for available jobs. Currently, some work experience programmes are available, however the group felt that improvements in this area should be made, as access to these is currently uneven and many are falling short.

Participants expressed concerns that a substantial amount of money is focused towards providing free higher education instead of vocational pathways. Once qualified, people are leaving Scotland to move to countries with more attractive job prospects.

2. Incentives for business

Participants highlighted a current lack of incentives for businesses in Scotland. They emphasised the need to incentivise businesses with rates reform, grants, etc. The

group suggested that measures such as reducing corporation tax would be beneficial.

Participants felt there were missed opportunities to prioritise businesses in areas where Scotland has a comparative advantage. One area identified by participants was e-commerce. The group suggested that investing in becoming an e-commerce hub could allow Scotland to compete with e-commerce businesses in places such as London, but with much lower costs. Participants felt that such opportunities should be supported through school curriculums (e.g., through more digital media education), and that businesses should be supported to come together and understand how they fit into the Scottish economy relative to one another.

Some participants proposed that income tax and National Insurance should be merged to put Scotland on a par with England and to incentivise businesses to stay in Scotland. They expressed an expectation that taxes will increase and felt that this would reduce revenues and cause businesses to leave Scotland.

The group suggested that current green initiatives are unaffordable and put extra strain on businesses. Participants argued that fossil fuels are needed, and that priority should be given to improving and expanding productivity in long-standing, established industries. They felt that current schemes are inefficient. For example, grants are given for heat pumps, but participants described experiences of heat pumps not working, or not being effective enough.

The group supported the prioritisation of a coherent industrial strategy in which businesses can be excited to be a part of. They identified issues resulting from Ministers not staying in post long enough to enact real change. Participants felt that a Digital Minister is needed to take advantage of digital opportunities, and that consistency in Ministerial posts is essential to foster real change. Specific business areas that participants considered should be included for development in an industrial strategy included retail, digital businesses, aerospace and engineering, and manufacturing and software.

3. Coherent and interconnected infrastructure

Participants emphasised that infrastructure should be prioritised to support growth. They raised questions around whether sufficient housing is available, especially in rural areas where planning issues cause delays. They suggested that certain businesses (e.g., digital) could thrive in rural communities where fewer facilities (e.g., warehouses) are needed.

Participants expressed that an increase in taxation should be reflected in better services. They felt that skills development and incentives for business need to be supported by adequate infrastructure (transport, housing, etc.). The group felt there is a lack of resilience in current public service systems, citing effects from the war in Ukraine and shortages experienced as a result of importing oil and gas instead of supporting these industries in Scotland.

Participants questioned the efficiency of the current model for Local Government, and suggested savings could be made in this area. The group questioned the

necessity of the current number of local authorities in a country of Scotland's size. They also emphasised a lack of connection between local authorities, leading to disjointed approaches. The group suggested reducing the levels of management within local authorities, noting that inefficiencies in current structures may result in money being wasted. Participants stressed that the effectiveness of local authorities is often dependent on good leadership. They felt there is a lack of accountability for large losses (e.g., procurement failures such as in relation to ferries) and proposed that greater transparency would help resolve accountability issues.

The group suggested that procurement should support community wealth by being geared towards supporting local businesses to compete. They felt that reducing centralisation in some areas could help – for example, participants suggested that teachers could procure resources locally if given the opportunity, and that this would increase efficiency and reduce costs.

Participants highlighted the impact of current levels of home working on productivity. They felt that current policy decisions are contradictory and motivated by short-term political gain. They discussed that investments are being made into infrastructure, such as public transport, but far fewer people are using it to go to work. Participants felt that people should therefore be encouraged back into offices.

In summary, the following priorities were highlighted for the Scottish Budget 2024-25 and beyond:

- education and skills development,
- incentives for business, and
- coherent and interconnected infrastructure.

Summary note of discussion with public bodies, local authorities, and local health organisations, led by Kenneth Gibson MSP and Ross Greer MSP

Part 1: Priorities for the Scottish Budget next year and in the future

Funding should be prioritised to address the twin crises of the cost of living and the climate. A shift towards more investment from the private sector is needed to plug the 'green funding gap', along with prioritising investment in infrastructure to help achieve a net zero economy.

The sustainability of universal provision needs to be considered. Rather than "costly means testing", a more 'light touch' approach/regime could be developed, and users could be asked for a nominal payment, for example, for concessionary bus travel. In relation to free tuition fees, there are benefits in having 'cross-border traffic' as well as encouraging students to stay in Scotland to work after they qualify.

More integrated services are required, for example tying physical activity into care packages to help address climate change and prevention in health care. This was termed as 'Green Health': the opportunity to deliver multiple services and support prevention, while delivering net zero targets. Against a backdrop of financial pressures, the closure of public golf courses and gyms was seen as the 'nuclear option' and so local authorities are trying to move the facilities more towards a 'health delivery vehicle'.

Investment is needed in technology to deliver better health outcomes, and to fund more staff to care for elderly people and deliver care packages to enable more patients to move out of hospital when ready to do so. The local health board is seeking to recruit international workers to help support this.

Locally, funds need to be transferred from early years and childcare (where there are overspends) and schools to services for older people.

Participants questioned whether the Scottish Government has too many priorities, which can be difficult to deliver. Its National Strategy for Economic Transformation (NSET) is seen to be helpful but now needs greater involvement and 'buy-in' from public bodies and to deliver an environmental as well as economic impact.

The burden of regulation, in particular in relation to planning, needs to be alleviated. One suggestion was to handle listed buildings differently, freeing up non-key heritage sites for development and investment by private companies, including to improve energy efficiency. More broadly, the lack of bureaucracy during the Covid pandemic was welcomed.

Local authority representatives agreed with the principle of raising additional revenues from new forms of local taxation for public spending, while recognising there are sensitivities around this. They suggested a need for fair distribution of these revenues across Scotland, rather than them being concentrated in specific local authority areas, to avoid winners and losers. Participants considered that raising income tax is politically difficult if it is not to fund additional services (it could be to maintain the status quo).

Part 2: Are the Government's priorities the rights ones?

A discussion was held around the Scottish Government's current priorities. Participants considered the following issues to be important in relation to spending priorities:

- prevention,
- joined-up services and delivery,
- net zero,
- transparency around decision-making for the public,
- digitalisation, including using artificial intelligence to allow staff resources to be deployed more effectively,

- join up university course provision with employability and labour market needs and future trends, as well as creating career pathways (including in relation to net zero), graduate apprenticeships, and shorter degree courses,
- local government reorganisation, focused on management structures while maintaining localised decisions,
- simplification of the planning system and less bureaucracy in regulation,
- look again at universal provision, including how free tuition fees might influence the type of courses that are being offered by universities,
- focus on ensuring society has healthy people, who are able to work and pay their taxes, and
- create conditions to move people out of poverty, including through the social security system.

In narrowing down these issues to three priority areas, the following were highlighted for the Scottish Budget 2024-25 and beyond:

- prevention,
- digitalisation, and
- joined-up services and delivery

Summary note of discussion with representatives from the third sector and local community groups, led by Michelle Thomson MSP

Part 1: Priorities for the Scottish Budget next year and in the future

The group discussion focussed on the NHS and healthcare spend. Issues raised included over-50s needing to opt for private healthcare as they are not receiving the treatment that they require through the NHS due to the length of waiting lists. It was noted that post-Covid, the NHS has deteriorated and that an ageing population requires more support in using the health service. The group queried what the priorities were in NHS decisions. Participants also noted the relative low earnings of junior doctors for the work they provide, meaning it can be difficult to retain staff.

One member of the group challenged the notion of an increase in the ageing population, they felt this is plateauing. When asked if that population could pay more tax to go to the NHS for example, the group responded that it would depend on where that money was spent – they would want it to go towards helping people needing care and support with cancer and to helping elderly people. The group also noted that there needs to be an understanding across the whole of society as to where money is being spent. Those who have paid taxes all their lives would feel that they wouldn't need to pay any more.

The group suggested that less money could be spent in the following areas:

- constitutional differences with the rest of the UK,
- advertising expenses,
- the number of national representatives, and
- gender reassignment.

More money could be put towards the country's transport infrastructure and the integration of health and social care.

One member of the group suggested that Scotland needs to create wealth for its own benefit. The group also noted that there are no suitable jobs for young people and smaller businesses are not able to afford the living wage. The third sector were also mentioned as an area that needs funding. Local transport issues were also mentioned as lessons that could be learned, as was the loss of local industry to overseas interests. It was felt that services could be more proactive rather than reactive when it comes to job creation.

Part 2: Are the Government priorities the right ones?

The group discussed the priority of tackling child poverty, but one member of the group queried, using local examples, where money is going beyond the parents. Job creation was also discussed to lift people out of poverty and move people away from benefits and from food poverty to healthy eating. However, there was broad agreement that the Government's priorities are the right ones, but there are issues around the level of resources targeted towards them. Greenspaces and climate change were noted as being important, but it was hard to weight this against the likes of employment, poverty and health.

There was discussion on Scottish products having identity and recognition. It was noted that more investment is needed in high streets, again using local examples of empty shops and spaces, private landlords pricing local businesses out of the area and buildings falling into disrepair.

One member of the group asked how long in the future do elected Members look, whether it's 5 years, 10 years or 20 years and suggested that there should be a vision for Scotland that looks 10 to 20 years ahead. There was also comment on there being no simple solution to a diminishing tax base. Wealth creation was mentioned along with the manufacture of goods for consumption in Scotland. The group felt that money should be spent sensibly and cost-effectively.

The group agreed the following priorities for the Scottish Budget 2024-25 and beyond:

- NHS spend,
- alleviating child poverty,
- a vision for Scotland, including wealth creation and job creation, and
- localism, with more of a focus on local issues.

Summary note of discussion with representatives from community groups and the third sector, led by John Mason MSP

Part 1: Priorities for the Scottish Budget next year and in the future.

The group focussed on where greater funding for the Scottish Budget could be achieved as well as on where there should be greater expenditure.

The role of ensuring that all sources of income are maximised was highlighted as key during times of financial constraint. This includes:

- greater focus on tackling tax evasion both at an individual and business level,
- considering means testing of currently universal benefits as well as in relation to access to services for those with significant pensions and incomes. The group considered that some services such as access to schools and health care should remain free to all, and
- seeking greater income revenue from land taxes.

The group considered that those earning the most should be taxed more and that those in publicly funded posts such as senior public servants and politicians (UK and Scottish) should not be as highly paid, thus increasing the amount available to the Scottish budget. It was highlighted that those on middle to lower incomes spend their earnings in their communities thereby supporting others in work. It was also noted that removing charitable status from private schools would bring in more funding for the Scottish Budget.

The lower level of corporation tax compared with income tax levels was questioned.

Greater accountability for ensuring money is spent effectively was highlighted as a key approach to ensuring that as much money is available for the Scottish Budget as possible. This strengthened accountability includes Government being prepared to stop projects/spending on policies sooner if they are not delivering on key milestones or objectives (such as not on budget or timescale); ensuring that those with oversight responsibilities have the correct skills; and more rigorous inspection and monitoring to ensure work is completed to the standards expected or contracted for.

An ageing population should also be seen as an asset as older people can provide a benefit to society given the many roles they can fulfil, such as providing care and childcare and in public service.

The group considered that mental health provision is under-funded, and this has a significant impact on many other aspects of society. Providing more funding to mental health services would also lead to improvements in physical health (through feeling able to be more physically active), alleviating pressure on the NHS, and supporting better outcomes for those in education through better mental health.

Part 2: Are the Government's priorities the right ones?

The Group considered that the Government priority of 'tackling poverty and protecting people from harm', was the right priority. It was highlighted in relation to social security that:

- how the money is provided to individuals living together (to a single account) could exacerbate financial control and abuse, and
- investment in early years (addressing deprivation experienced by those under 5) is key to improving life chances.

Some participants in the group suggested in relation to 'Prioritising our public services', that policing should be a priority given the experiences in Largs, while others highlighted the challenges in local general practice provision. There was a sense that post-Covid some of the previously valued approaches such as in-person appointments and quick call-handling have not returned to previous levels in the way they should have.

In considering how budgets are managed between policy areas such as health, policing and fire services, there was a view that any budget reductions should be more fairly and equally distributed across policy areas rather than some areas being protected at the expense of others.

It was felt that privatisation of some previous public services impacts more on those with less income, e.g., charges for doctors' notes and some aspects of dentistry. There was concern that those with money could access private treatments while others had to wait (sometimes years) for treatment.

Accountability was again highlighted as being key to ensuring that public money is spent effectively and allied to that was the view that decision-making should be closer to where the decisions would impact. It was explained that those making decisions high up in organisations didn't necessarily understand how to make that decision work in practice and that was why local decision making was important. This, it was felt, would also provide for better accountability.

In considering the Government's priority for 'a fair, green and growing economy', there was recognition that, while it was important to address the impacts of climate change, the focus on electric vehicles, low emissions and delivery of benefits through those approaches, was being overplayed. In addition, sometimes the necessary infrastructure is not in place. A greater focus on reducing waste and improving recycling (including ensuring waste is not sent abroad) would better address the impact of climate change, while enabling the economy to grow.

The group agreed the following priorities for the Scottish Budget 2024-25 and beyond:

- strengthened accountability – Government should be prepared to stop funding a policy approach/project if it is no longer relevant or does not deliver and be prepared to ask such questions of those tasked with delivery,
- use of taxation to raise more revenue for Government spending,

- better funding for mental health, which can unlock opportunities across the NHS, and
- new ways of working to unlock benefits and a need for more local decision-making.

Summary note of discussion with representatives from community groups and the third sector, led by Michael Marra MSP

Part 1: Priorities for the Scottish Budget next year and in the future.

Participants remarked that the challenges facing the Scottish Budget are not unique to Scotland and other countries face similar demographic issues. However, it was noted that Scotland has natural resources which, participants argued, are inexpensive to tap in and could be better used to improve wellbeing.

Frontline public services should be a priority (“every single day we are more stretched and more stressed”). The police, for example, is unable to meet demand, which is a cause of worry and concern for the local community.

It was noted that the ambulance service receives regular calls from elderly patients who cannot access other types of support and instead become “regular customers”.

Other frontline services have seen behavioural change following the pandemic. One participant argued in favour of a “self-empowered wellbeing nation”, focused on making better use of services available in the community. Investment should be directed towards preventative schemes/projects to support mental wellbeing. Activities promoting mental health, such as gardening, should be encouraged. For example, teaching people how to grow their own fruit and vegetables could be a way of tackling the cost-of-living crisis.

Participants emphasised the need to “look back at what we’ve already tried and hasn’t worked”, rather than exploring solutions that are not deemed to be affordable. It was argued that there is significant waste and inefficient use of resources within, for example, the local Council, with a local park being given as an example of a successful community takeover. More could be done in this sense and there is no shortage of will and volunteers, however, they lack proper organisation and coordination. Another positive example given was that of Largs Campus – a new building replacing four separate schools.

“Reducing the number of people at the top”, particularly highly paid roles in local authorities, was seen as a cost-saving measure. Participants argued there is a lot of repetition in work completed by the Council, with limited results. Communities are consulted on the same issue by various teams within the local authority, however, no action is taken, leading to general frustration.

Participants strongly opposed tax rising to support services, arguing that “people are struggling as it is”. It was noted that council tax rates are particularly high in Largs, which is widely seen as a well-off area, despite considerable poverty - a perception that leads to local organisations missing out on funding opportunities.

Part 2: Are the Government’s priorities the right ones?

Participants acknowledged the difficulty faced by the Scottish Government in setting priorities for the budget but stated that these are “the right priorities for now”. The case of the NHS was described as a vicious circle in frontline services. Attendees gave several examples of patients staying in hospital longer than needed due to a lack of provision in community care. They stated that “the problem does not sit with the NHS”, but with the lack of staff and funding available to care homes. Investment in care at home and within the community would break the cycle, relieving hospital beds and pressure on the ambulance service.

More generally, participants argued that “we need to change the risk averse culture within the public sector” and reduce reliance on private organisations for providing public services.

The group further discussed the issue of retirement and part-time working. They questioned the value for money of raising the retirement age, noting that, if they cannot retire, people will instead opt for long-term sick leave. One participant argued that “people are feeling resentment, so they leave the workforce”. Partial retirement was discussed as a potential solution that would “give people a sense of purpose”, reduce staff shortages and relieve pressure on services.

The group agreed the following priorities for the Scottish budget:

1. Bear down on waste and accepted incompetence
2. Shift to prevention by/with/for communities to break negative cycles
3. Shape spending to demographic need, including social care and mental health

List of organisations participating in the engagement event*

Ayrshire Chamber of Commerce
 Ayrshire Community Trust
 Blue Diamond
 Cameron Centre
 East Ayrshire Council
 Grasshopper Toys
 Largs Thistle
 Largs Community Council
 NatureScot
 NHS Ayrshire and Arran
 North Ayrshire Council
 Opening The Shutters

Skelmorlie Secret Bunker
South of Scotland Enterprise
Supply Chain Management Group
West Kilbride Community Association
West Kilbride Community Council
Wilkie's
Yes Your Entire Self

*Some organisations were represented by more than one person.