An Leas-phrìomh Mhinistear agus Ath-shlànachadh Cobhid

Deputy First Minister and Cabinet Secretary for Covid Recovery

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Kenneth Gibson MSP
Convener
Finance and Public Administration Committee
The Scottish Parliament
Edinburgh
EH99 1SP

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Dear Kenneth,

At the Finance and Public Administration Committee evidence session on the 2023-24 Scottish Budget on 10 January, I agreed to write to the Committee to clarify the following matters.

You asked what the additional resource cost to the Scottish Government is per £1 increase to the hourly wage of social care workers.

The cost of each £1 uplift to the minimum hourly rate for Adult Social Care workers in the third and independent sectors costs approximately £250 million. This is what it would cost to fund a minimum hourly rate of £11.90, in addition to the £100 million already in the 2023-24 Budget for the £10.90 minimum rate. This does not include social care workers employed by Local Authorities who are covered by Local Government pay negotiations.

Mr Lumsden asked for further information on the revaluation of non-domestic rates, particularly regarding what the valuation roll has increased from and to.

The Scottish Fiscal Commission (SFC) forecast for non-domestic rates (NDR) contributable income is £2,818 million in 2022-23 and £3,075 million in 2023-24, a growth in income of £257 million, or 9.1%. The two key factors that explain the growth in NDR income in 2023-24 compared to 2022-23 are the ongoing 2023 revaluation, and the devolution of Empty Property Relief (EPR) to local authorities on 1 April 2023. Reliefs, such as Empty Property Relief, cause the NDR income forecast to be lower than it otherwise would be. The Local Government settlement allocated £105 million of funding to local authorities in 2023-24 as a result of the devolution of this relief. If forecast NDR income for 2032-24 is reduced by the value of Empty Property relief allocation, the growth relative to 2022-23 would be 5.4%, which is aligned with the estimated growth in rateable value in 2023-24 as a result of the revaluation.

As revaluation was ongoing at the time the NDR forecast was finalised, Budget decisions were made using draft values provided by Assessors to the Scottish Government where these were available as at 23 November 2022, and imputed values otherwise. Based on this data, it was estimated that total rateable value on the valuation roll (£7,281 million) would increase by an estimated 5.2% at revaluation to £7,656 million. It should be noted however that draft values can change up to 31 March 2023, for instance, ratepayers can make representations to Assessors on their draft values. Final rateable values may therefore differ from draft values, and the growth in total rateable value at revaluation may differ from the growth assumed at the time the NDR forecast for the Scottish Budget 2023-24 was finalised.

Once final values are available after the publication of the valuation roll which comes into force on 1 April 2023, the Scottish Government intends to make available statistics on the impact of the revaluation across the NDR tax base.

Ms Smith asked for further information regarding the distributional analysis of the Income Tax changes.

In response to this question, I stated, *“Essentially, the steps that we are taking are affecting individuals who are in the top two quartiles of the population in terms of earnings.”* However, I recognise my answer accidently misstated the impact of the policy, and would like to take the opportunity to correct this. Distributional analysis of the 2023-24 Income Tax policy published alongside the Budget demonstrates that the impact of the changes announced are concentrated on the top two income deciles, both in cash terms and relative to their gross income. The distributional analysis can be viewed here: Scottish Income Tax: distributional analysis 2023-24 - gov.scot (www.gov.scot)

Mr Greer asked when the Spring Budget Revision can be expected, and if the schedule of this has been impacted by pay awards not yet agreed.

The draft Spring Budget Revision (‘SBR’) is currently scheduled to be laid in Parliament on 2 February. The scheduling of this has not been impacted by any ongoing discussions around pay awards and is consistent with the laying date for the previous year’s Spring Budget Revision.

The SBR must be enacted before the end of the financial year on the 31 March 2023. There is very limited scope to delay the revision given the time required to incorporate the committee evidence session as well as the normal parliamentary procedures required to approve the SSI.

I would note that the UK Government's 2022-23 Supplementary Estimates process is still ongoing. This process will determine the Scottish Government's final block grant funding position for 2022-23. Whilst we expect information on any changes to the block grant in the coming weeks, the exact date for finalisation of the position is not yet confirmed. The timing of the UK Supplementary Estimate process makes fully reflecting all changes within the SBR challenging, with very late UK Budget changes exacerbating that challenge. We will keep the timing of the SBR under review, although, as noted above, the scope for any delay is minimal.

Mr Greer requested further information on the scale of the difference between the revenue raised from the 2018-19 Income Tax reform and the behaviour changes that the SFC assume would happen.

Published outturn data shows that Scottish Income Tax raised £127 million more than the corresponding Block Grant Adjustment in that year (Fiscal framework data annex: December 2022 - gov.scot (www.gov.scot)). It is important to note that this reflects differences in policy as well as economic and tax performance, relative to the rest of the UK.

However, putting a quantitative estimate on the amount of additional tax that our policy reform has raised is not straightforward. Firstly, we will never know for certain how much the policy generated as we are comparing the published outturn data against a hypothetical scenario that was not observed in practice. Secondly, despite extensive research in this area, there is still considerable uncertainty when it comes to measuring taxpayers' behavioural responses to Income Tax changes. This is why we continue to work in close partnership with other stakeholders, including HMRC, to monitor and develop the emerging evidence base.

To further inform the public debate regarding income tax policy, in December 2021 the Scottish Government published its own policy evaluation of the 2018-19 changes to a five-band income tax system, drawing on new Scotland- specific evidence on taxpayers' behavioural responses published by HMRC (Estimating Scottish taxpayer behaviour in response to Scottish Income Tax changes introduced in 2018 to 2019 - GOV.UK (www.gov.uk)). As shown in Table 5, our evaluation estimated that 2018-19 Income Tax policy raised between £230 to £245 million, compared to mirroring policy in the rest of the UK. This was around £60 to £70 million lower than would have been expected using the estimates of taxpayers' responsiveness at the time the policy was introduced. The full policy evaluation is available to view here: Scottish Income Tax: 2018-19 policy evaluation - gov.scot (www.gov.scot)

Mr Johnson asked if the Scottish Government will be producing a Classification of the Functions of Government (COFOG) analysis of last year's Budget document in addition to the 2023-24 Budget.

I can confirm my intention to publish a COFOG analysis for 2021-22, 2022-23 and 2023-24, that will reconcile with the budget aggregates as included in the Scottish Budget 2023-24. This will be published before February recess.

I hope this assists the Committee.

JOHN SWINNEY