

An Leas-phrìomh Mhinistear agus Ath-shlànachadh  
Cobhid  
Deputy First Minister and Cabinet Secretary for Covid  
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3 February 2023

Dear Kenneth,

## **2023-24 SCOTTISH BUDGET – COMMITTEE BUDGET SCRUTINY REPORT**

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

I appreciate the Committee's recognition of the incredible financial and economic challenges that Scotland is currently experiencing and the difficulties that this has created for the Scottish Budget.

The Scottish Government's ability to manage short-term and medium-term risks to funding is defined by our current powers within the Fiscal Framework. The Scottish Government seeks to use these to the full.

The Scottish Government is developing a Pay Strategy for 2023-24 in collaboration with stakeholders which will set out key principles and will recognise the relationships between pay, public service reform and workforce. I will update the Committee further on this in due course.

Scottish Ministers, special advisers and the Permanent Secretary are covered by the terms of the Lobbying (Scotland) Act 2016. See [www.lobbying.scot](http://www.lobbying.scot)

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The Scottish Government's approach to public service reform across the public body landscape goes beyond simply achieving efficiencies, as I have set out further in this response. It is designed to ensure that resources are deployed in the most effective and sustainable ways to improve outcomes.

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

I look forward to further discussing these and other issues with the Committee on 7 February.

**JOHN SWINNEY**

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## ANNEX A – DETAILED REPORT RESPONSE

Para No.	Comment/Recommendation	Response
26-27	<p><b>2022-23 Scottish Budget</b> - The Committee is concerned that there is still uncertainty so late in the financial year around how the 2022-23 Scottish Budget will be balanced. While we recognise the challenges that the Deputy First Minister faces, we believe that this issue should be resolved as early as possible to enable sufficient time for transparency and scrutiny of final decisions. We ask the Deputy First Minister to continue to keep the Committee informed of decisions taken as he seeks to finalise the budget, and we look forward to scrutinising the Spring Budget Revision once it is laid before Parliament in the coming weeks.</p> <p>We note that it is unlikely the Scottish Government will be in a position to carry over any resources, placing additional pressures on the 2023-24 Budget.</p>	<p>Noted. This issue is being treated with the greatest priority and urgency within the Scottish Government. Significant progress has been made as a result of the difficult decisions involved in the Emergency Budget Review that resulted in savings of £1.2 billion being delivered and other measures being taken to contain costs.</p> <p>The Scottish Government will continue to update the Committee on the 2022-23 Scottish Budget position. The Spring Budget Revision was laid in Parliament on 2 February 2023.</p>
44	<p><b>GDP</b> - The Committee recognises that the use of the GDP deflator to measure inflation for government spending in the current circumstances does not accurately reflect the real pressures on the Scottish Government's spending envelope this year.</p>	<p>Noted and agreed.</p>
47	<p><b>Transparency</b> - The Committee believes that publishing COFOG information will enhance transparency by enabling comparisons between years regardless of whether Ministerial portfolios change. We therefore welcome the Deputy First Minister's commitment to publish COFOG analysis for the years 2021-22, 2022-23, and 2023-24, in the coming weeks.</p>	<p>Noted. We remain committed to publishing the COFOG analysis before the February recess.</p>

Para No.	Comment/Recommendation	Response
56	<p><b>Taxation</b> - As highlighted in our Pre-Budget Report, the Committee believes that a public discussion around tax and spending choices would be helpful, and we are therefore disappointed that the Scottish Government has not provided, alongside the Scottish Budget 2023-24 as planned, its discussion paper on these issues. We seek an update on when this discussion paper will be published.</p>	<p>The publication of a tax discussion document was proposed shortly after the UK Government's mini-Budget. However, the rationale for the document changed as the UK Government's mini-Budget was gradually unwound.</p> <p>The Scottish Government undertook a programme of pre-Budget engagement with stakeholder organisations, which included representatives from business and civil society organisations, trade unions, and tax and legal professionals. A summary of these discussions was published alongside the 2023-24 Scottish Budget with data on public attitudes to tax.</p> <p>While there are no immediate plans to publish a tax discussion document, we will keep the situation under review and will update the Committee should this position change. The Scottish Government will continue to take a collaborative approach to developing tax policy, in line with the principles set out in our Framework for Tax and will consider how best to engage with public on tax choices.</p>
57	<p><b>Taxation</b> - We also seek an update on the Scottish Government's plans to reform council tax, given the evidence we heard that property tax is less progressive than other devolved taxes.</p>	<p>The Scottish Government is committed to a fairer, more inclusive and fiscally sustainable form of local taxation.</p> <p>A Joint Working Group, which includes representatives from COSLA, has been set up to consider proposals for meaningful changes to be introduced in the short-term, such as increasing rates of council tax on second and empty homes. The group will also consider approaches to longer term reform.</p>

Para No.	Comment/Recommendation	Response
57	<p><b>Taxation</b> - We invite the Scottish Government to provide details of how it has assessed its approach to council tax and non-domestic rates policy against the strategic objectives in its Framework for Tax, as well as the outcomes of this assessment.</p>	<p><u>Council Tax</u></p> <p>We have not formally assessed the present council tax against the strategic objectives in our Framework for Tax, reflecting that Council Tax is a local tax, set and administered by individual local authorities and delivering significant revenues that directly fund local services. The setting of the Council Tax is a local democratic choice – councils are accountable to their constituents. The 2023-24 Scottish Budget confirms that we will not seek to agree any freeze or cap in locally determined increases to Council Tax, therefore each Council has the full flexibility they requested to set the Council Tax rate that is appropriate for their local authority area.</p> <p>The Scottish Government recognises the shortcomings of the present Council Tax system and is committed to longer term reforms. However, there has not been consensus on what a replacement might be - the Joint Working Group convened with the Scottish Green party and COSLA will consider long term reforms.</p> <p>Whilst we have not assessed Council Tax against the strategic objectives in our Framework for Tax, the Council Tax Reduction (CTR) Scheme is fundamental to ensuring these objectives are met, in particular by ensuring that nobody currently has to meet a council tax bill they cannot afford. Anyone who will struggle to pay the council tax due on their home should contact their local council as soon as possible - The CTR scheme reduces a household’s council tax liability based on an assessment of their income, capital, and circumstances. Over 450,000 households receive council tax reduction and on average recipients save over £750 a year.</p> <p><u>Non-Domestic Rates</u></p> <p>Non-domestic rates policy aligns with the strategic objectives in the Framework for Tax. Non-domestic rates represent an important lever (alongside council tax, grant funding provided to councils by the Scottish Government and the income councils raise from fees and charges) by which councils secure funding to enable them to deliver local services.</p> <p>The Scottish Government continues to implement the agreed recommendations of the independent Barclay Review of Non-Domestic Rates, with the 2023 revaluation marking the start of a three-yearly cycle with a one-year tone date. This will ensure that rateable values, and therefore rates liabilities, more closely reflect market trends. This should help reduce volatility, thereby increasing the stability of non-domestic rates revenue, whilst ensuring that the non-domestic rates system is more responsive to societal shifts.</p>

Para No.	Comment/Recommendation	Response
63	<p><b>Tax behaviour change</b> - The Committee notes that the 1p increase in income tax for higher earners is forecast to lead to revenues of £30 million, but with anticipated behavioural change reflected this figure reduces to £3 million.</p> <p>We believe that more needs to be done to understand the drivers for behavioural change and that, as a starting point, the Scottish Government should work with relevant bodies, such as HMRC and Revenue Scotland, to ensure that more data can be captured on the behavioural impacts resulting from these particular income tax changes. We further note that behavioural impacts will also arise in relation to the revenue collected through other devolved taxes.</p>	<p>Evidence on behavioural responses is an integral input to the decisions taken on tax policy. The Scottish Government has actively and carefully developed and updated its evidence base working closely with stakeholders, including HMRC, since the devolution of income tax powers. It has also taken into account the Fiscal Commission’s judgements on behavioural responses.</p> <p>As one example, in December 2021 the Scottish Government published a policy evaluation of the 2018-19 Income Tax reforms, which introduced a five-band system which drew on new Scotland-specific evidence on taxpayers’ behavioural responses published by HMRC.<sup>1</sup></p> <p>The study found no evidence of significant behaviour change, including cross-border migration, as a result of our move to a more progressive tax system. The Scottish Government’s 2020 publication on behavioural responses, drew on the technical expertise of the Council of Economic Advisers, and came to a similar conclusion.<sup>2</sup></p> <p>We are acutely aware of the benefits and risks of changing tax policy, including behavioural responses, which is why we remain committed to continue our work with stakeholders to improve our understanding, in particular with regard to cross border mobility, as new data becomes available. We will consider opportunities to update the Committee in the future regarding work undertaken to develop this evidence base, when appropriate.</p>
64	<p><b>Tax behaviour change</b> - The Scottish Government’s planned discussion paper on tax and spend presents a welcome opportunity to explore issues around behavioural impacts on tax revenues, and its plans “to strengthen the social contract between the Scottish Government and citizens of Scotland for the wider benefit of society.”</p>	<p>Noted – please refer to the responses to paragraphs 56 and 63 for related information.</p>

<sup>1</sup> [Scottish Income Tax: 2018-19 policy evaluation - gov.scot \(www.gov.scot\)](http://www.gov.scot/Scottish+Income+Tax+2018-19+policy+evaluation)

<sup>2</sup> [Scottish+Budget+2020-2021+-+understanding+the+behavioural+effects+from+income+tax+changes.pdf \(www.gov.scot\)](http://www.gov.scot/Scottish+Budget+2020-2021+-+understanding+the+behavioural+effects+from+income+tax+changes.pdf)

Para No.	Comment/Recommendation	Response
72	<p><b>Earnings Growth</b> - The emerging picture of people leaving the workforce due to ill health or changing attitudes to work following the Covid-19 pandemic is concerning and compounds existing labour market participation challenges in Scotland.</p> <p>The Committee asks the Scottish Government what steps it is taking to understand the specific reasons for economic inactivity in Scotland and how it will encourage greater take-up of employability programmes in 2023-24, including from those currently inactive and how it will encourage greater take-up of employability programmes in 2023-24, including from those currently inactive.</p>	<p>Our National Strategy for Economic Transformation (published in March 2022) makes a commitment to address Scotland’s labour market inactivity challenges – we were among the first to turn serious attention to this issue. Analytical work is ongoing to understand, in detail, the causes and drivers of economic inactivity. Work is also underway to look closely at how our health system and employability support services can better support people to stay in work and get back to work when they are out of the labour market. A critical aspect of inclusive growth is ensuring that as many people as possible, including those further from the labour market and facing complex or challenging circumstances, have the opportunity to access fair and sustainable work.</p> <p>The Scottish Government has committed to ensuring everyone has access to employability support that will help them towards and into sustainable employment. This is being done through a combination of locally designed services, No One Left Behind, and our national employment service, Fair Start Scotland. Through our employability services we are providing person-centred, tailored employability support to those further from the labour market.</p> <p>Through our No One Left Behind approach and NSET commitments, we are driving transformational change to improve the employability system for service users through simplifying the landscape and strengthening local delivery models in partnership with Local Employment Partnerships. This entails moving to a local governance model for employability services that fosters crucial join up between key services. We launched the second phase of No One Left Behind in April 2022. Through our co-designed Shared Measurement Framework, National Service Standards and Customer Charter, we are already working to learn from early delivery whether this is delivering the benefits that we expect to see for individuals and their communities, as well as local employers and economies.</p> <p>We are also undertaking action to improve local engagement to break down barriers and share best practice on embedding health and employability as part of the Local Employability Partnerships via public health teams, employability services and the third sector. Our Fair Start Scotland continuous improvement activity focuses on enhancing our engagement with under-represented groups and developing better support for participants with more complex needs. This will be achieved by continuing to work with organisations across Scotland to raise awareness of the Fair Start Scotland service to ensure that individuals who are eligible, are aware of the service, its benefits and can make an informed decision on whether to take part.</p>

Para No.	Comment/Recommendation	Response
79	<p><b>Growing Tax Base / Productivity</b> - The Committee has repeatedly highlighted the long-standing challenges of demography, low productivity and the need to grow the tax base especially in high-wage industries. We consider the Scottish Fiscal Commission's first Fiscal Sustainability Report to be a valuable contribution to the debate around meeting these challenges, and we look forward to scrutinising the report once published in March.</p>	Noted.
80	<p><b>Growing Tax Base / Productivity</b> - We heard from experts that the National Strategy for Economic Transformation must be "pursued with vigour," given the importance of growing the economy.</p> <p>The Committee therefore invites the Scottish Government to provide evidence of how it is driving forward the actions in the Strategy, including progress with encouraging co-investment between public and private sectors.</p> <p>We also seek confirmation of whether current financial constraints will impact on delivery of the Strategy and, if so, in what areas.</p>	<p>Our National Strategy for Economic Transformation (NSET) is a route to a strong economy with good, secure and well-paid jobs and growing businesses, maximising Scotland's strengths and natural assets to seize the opportunities of achieving net zero and becoming a fairer country. Economic modelling estimates that delivery of key components of the strategy could increase the size of the Scottish economy by at least £8 billion (4.9%) more than it otherwise would have been in 2032.</p> <p>On 31 October 2022 we published prioritised and affordable delivery plans for each NSET programme. We are prioritising those projects which can best support the cost crisis in the short-term, as well as those that will make the biggest contribution to sustainable and inclusive economic growth. We are working together with the public, private and third sectors – as well as with individuals and communities – in a "Team Scotland" approach to implement the delivery plans and take bold actions, within the powers and budget available to us, to transform our economy and build a fairer, greener, more prosperous and resilient country. We are already delivering on the strategy's transformational projects. For example, we have awarded a contract to establish a network of hubs to support high growth tech businesses; published a Technology Sector Export Plan; and launched a £10 million Hydrogen Innovation Scheme and a £25 million Low Carbon Manufacturing Challenge Fund.</p> <p>The outcome of the ScotWind leasing round is a tremendous vote of confidence in Scotland's potential. We welcome the commitments from the ScotWind developers, who have pledged to invest an average of £1.4 billion in Scotland per project, which equates to £28 billion of potential Scottish economic activity. This has the potential to transform the energy sector and economy in Scotland, to diversify our existing industries and generate thousands of new jobs.</p> <p>The 2023-24 Scottish Budget will support our economic transformation to a stronger, fairer, greener economy, including through £6.5 million to boost entrepreneurship through our national network of Techscalers; a total of £186.5 million of resource allocated to the enterprise agencies; and £244 million for the Scottish National Investment Bank. The Bank aims to maximise its impact by partnering with third party capital through co-investment and crowding in.</p>



Para No.	Comment/Recommendation	Response
85	<p><b>Resource Spending Review</b> - The Committee agrees with the Cabinet Secretary for Finance and Economy that the aim of the Resource Spending Review should be to provide as much clarity and certainty as possible and a clear planning scenario for annual budgets over the remainder of the Parliament.</p>	<p>Noted.</p> <p>As has been highlighted by the Committee, the wider economic circumstances have changed significantly since the publication of the Resource Spending Review in May 2022, with ongoing high levels of volatility. Within this context, we will revisit the longer-term spending outlook in the next Medium Term Financial Strategy due to be published in Spring 2023.</p>
86	<p>We are therefore concerned that the RSR no longer provides the level of certainty or a clear planning scenario that was intended when it was published in May 2022. This effectively leaves public bodies in the dark when trying to manage their finances and plan for future delivery and reform of services in the years ahead.</p> <p>While we appreciate the challenges arising from the current levels of volatility in public finances, the Scottish Government must provide more clarity and certainty about the resource spending position to ensure confidence around the sustainability of Scotland's finances. We therefore urge the Scottish Government to update the RSR as early as possible.</p>	

Para No.	Comment/Recommendation	Response
94	<p><b>Employability</b> - The Committee is interested in the Scottish Government's work on employability programmes as part of a balanced approach to making progress in meeting its child poverty targets.</p> <p>We would therefore welcome an update on the outcomes, costs and long-term savings arising from the Dundee Pathfinder project which the Deputy First Minister highlighted as providing some good learning that would influence future such programmes.</p>	<p>The Dundee pathfinder is a partnership between Dundee City Council, DWP (Department for Work and Pensions), Social Security Scotland and the Scottish Government. The partnership aims to break down organisational barriers, test out innovative ways of working to improve services for families in poverty and support families into employment, either directly or via a longer path which recognises other immediate needs. The pathfinder is testing a relational, person-centred keyworker model, initially at a small scale in the Linlathen area of Dundee. Keyworkers are establishing close and trusted relationships with individuals in the community, drawing out learning on the often complex barriers to employment these families are facing. As a result of this learning, the pathfinder is working with local employers on more flexible job opportunities; strengthening connections to broader employability support (including from the third sector) for the long term economically inactive; and bringing in partners to support with pre-employability needs including mental health and wellbeing elements.</p> <p>Some nominal funding support has been provided to Dundee City Council for programme management, service redesign and organisational change. It is important to note, however, that this project is not about funding a new service but rather about supporting the changes and reform we want to see to deliver more and better support within existing budgets. Although the pathfinder is still at early stages of programme delivery, we have had some early success in helping individuals move into or closer to employment. Dundee City Council originally identified 96 priority families, 74 of which have since been engaged with the pathfinder programme and of those 7 have found employment; 6 have job offers; 1 family is being assisted towards self-employment; and 16 families are engaged with Enable's Parent Employability Support.</p> <p>The Dundee pathfinder is part of a wider Scottish Government programme of place based work supporting families through a variety of mechanisms, each of which will generate learning across the system. Several of these place based projects are involved in a pathfinder evaluation programme. The Scottish Government is working with external organisations to conduct an evaluability assessment and monitoring, and evaluation framework to understand how we might best monitor and assess the economic and social impact of these pathfinders. The assessment will also assist partners in exploring how evidence might be captured around how many families have benefitted from the pathfinder in terms of the three drivers of poverty (more income from employment, more income from benefits and, reductions in their cost of living) that "<i>Best Start, Bright Futures</i>" seeks to target.</p>

Para No.	Comment/Recommendation	Response
98 - 99	<p><b>Health &amp; Social Care</b> - The Scottish Budget 2023-24 document does not specify what level of spend has been incorporated into the relevant budget line in relation to the establishment of the National Care Service. It is therefore difficult to determine whether the amount allocated in the budget reflects the figures in the original Financial Memorandum (FM) for the Bill of between £60 million and £90 million.</p> <p>The Committee welcomes the Deputy First Minister's commitment to provide an updated FM for the National Care Service (Scotland) Bill and looks forward to examining it in detail ahead of the Stage 1 debate on the Bill. Given this is a flagship policy with considerable costs attached, the Committee invites the Scottish Government to consider extrapolating the budget lines for establishing the National Care Service from other health spending in the Scottish Budget, to allow this spend to be identified and tracked.</p>	<p>The 2023-24 Scottish Budget shows a total investment of over £1.1 billion in Social Care support and NCS delivery at level 4. All of this investment underpins increasing the sustainability of the social care sector ahead of implementation of the NCS.</p> <p>A revised Financial Memorandum is being prepared in response to the Committee's report of 1 December, which will provide more detail on expected spend in 2023-24 and beyond. We continue work to refine the business case and ensure that appropriate governance processes are in place to monitor and report on spending.</p>
111	<p><b>Capital and Fiscal Framework</b> - The Committee notes from the Scottish Government's Response to our Pre-Budget Report that work is underway between officials to develop a Terms of Reference for the Fiscal Framework Review, "which will be agreed by Ministers in the coming months." In our view the Review is long overdue, and we are therefore disappointed with the lack of progress and continued delays.</p> <p>We urge both Governments to agree to the Terms of Reference and to publish the Independent Report that precedes the Review without further delay.</p>	<p>The Scottish Government is clear on the need for the Fiscal Framework review to consider the operation of the current framework and ensure that the Scottish Government and Parliament have the necessary powers to manage the risks we face within our devolved responsibilities, and to support economic recovery.</p> <p>That includes the disproportionately constrained borrowing and reserve powers which limit the Scottish Government's ability to respond quickly to emerging needs - leaving Scotland overly dependent on decisions made by the UK Government.</p> <p>The final scope of the review, as well as the exact timings and process underpinning it, are ultimately subject to agreement with the UK Government.</p>

Para No.	Comment/Recommendation	Response
112	<p><b>Capital borrowing</b> - The Committee notes that the Scottish Government intends to borrow £250 million to boost its capital funding, rising to £450 million in the event that the sum of £200 million does not materialise from other sources.</p>	<p>Noted.</p>
113	<p><b>Capital projects</b> - The Scottish Government will not now be able to deliver all the capital projects that it had planned, given the real terms cut to its capital budget by the UK Government. We would welcome details of those projects that will be deprioritised along with confirmation of the Scottish Government's approach to securing the "significant long-term private investment" that it indicates will be required to achieve further emissions reductions.</p>	<p>In light of inflationary pressures and wider market conditions, the Scottish Government has made hard choices to align its 2023-24 Capital Budget to deliver against Government priorities. In some cases, this has meant portfolio budgets have reduced when compared to the May 2022 Capital Spending Review publication. For example, inflationary pressures have increased rail fixed track access charges meaning that we have had to reduce spend on major rail projects. Where choices have been made to slow down or reduce available budgets these are not choices that the Scottish Government has taken lightly - we must ensure that the Government maximises the impact of its capital investment to deliver against its strategic priorities. The Scottish Government's Global Capital Investment Plan published in March 2021 seeks to achieve alignment between Scotland's investment needs and the supply of internationally mobile capital.</p> <p>We recognise that public sector investment alone will not be enough to respond to the challenges of the 21st Century. We need to attract private investment and use public spending more effectively to crowd in private capital. We are seeking to work with investors who share our aim to address the 'grand challenges' that we face in Scotland and across the world. This requires us to shift from "funding to financing," and understand how we can create the right conditions that are attractive to investors and deliver our policy objectives.</p> <p>Globally there is a strong move towards responsible investing, and investors are increasingly looking to achieve social and environmental benefits in addition to a commercial return. We have met our commitment to expand our Green Investment Portfolio, bringing together market-ready projects worth at least £3 billion by the end of 2022. The Portfolio has a current value of approx. £3.4 billion, with around £300 million private investment already invested into projects and approx. £875 million currently under offer or in active discussions. Expansion of the Portfolio will allow us to present new projects which demonstrate that Scotland is a world leader in future and innovative green industries which will help us achieve Net Zero. The National Strategy for Economic Transformation committed to establishing an investor panel, chaired by the First Minister, to attract investment to a pipeline of projects in Scotland that support our transition to Net Zero and to bring investor intelligence to policy and regulatory development early in the process.</p> <p>The Investor Panel held an inaugural meeting on 12 December, co-chaired by the First Minister and Angus Macpherson, CEO, Noble &amp; Co. The Panel's primary focus will be on attracting capital investment to the physical infrastructure required for a just transition to Net Zero. The Panel agreed 3 key areas of focus: Market Intelligence, Investment Environment, Sectors/Themes/ Supply.</p>

Para No.	Comment/Recommendation	Response
114	<p><b>Impact of capital cuts</b> - We also request confirmation of how the cuts to the capital budget for 2023 will impact on the Scottish Government's ability to achieve its net zero targets and ambitions under its targeted review of capital spending as well as its impact on delivery of the National Outcomes.</p>	<p>The constrained investment trajectory Scotland has received from UK Government, coupled with the current impact of high inflation, places significant additional pressure on our capital programme. In real terms, this represents a steep decline in the buying power of our investment.</p> <p>With this in mind, we are using all levers at our disposal to maximise investment and support the economy, targeting our spending as effectively as possible. The 2023-24 Scottish Budget sets out over £6.3 billion of capital spending to support employment and the economy through our large-scale infrastructure plans, to move us along the path to Net Zero carbon emissions, and to underpin the provision of quality public services.</p> <p>The Carbon Assessment of the Capital Budget shows that low carbon investment in Scotland's public infrastructure for 2023-24 is at its highest level yet - around £2.2 billion. The percentage of Low carbon investment has increased by 4.2 percentage points, from 35 per cent to 39.2 per cent. £204 million more than 2022-23. The percentage spend on high carbon investment has decreased from 7.3 per cent in 22-23, to 6 per cent in 23-24.</p>
121	<p><b>National outcomes and EFSBS</b> - The Committee notes that the Equality and Fairer Scotland Budget Statement accompanying the Scottish Budget 2023-24 does not explain the impact on the delivery of National Outcomes of the Scottish Government's decision to focus its Budget for 2023-24 on three priorities. We also note that the Scottish Government provides commentary on how the budget impacts, by portfolio, on equality and fairness, and we recommend that in future years a similar approach is taken with regard to the impact of the Scottish Budget on National Outcomes.</p>	<p>We are committed to improving our fiscal transparency in line with our <a href="#">Open Government Commitments</a>.</p> <p>We will carefully consider the output of the forthcoming review of the National Outcomes, alongside our work with the Equality and Human Rights Budget Advisory Group, and how we might best undertake and evidence assessments of the impacts of budget decisions in the future.</p>

Para No.	Comment/Recommendation	Response
122	<p><b>National outcomes and multi-year programmes</b> - We also request further information from the Scottish Government on its proposed approach to better linking the impact of budget lines to National Outcomes being “centred on multi-year programmes, the associated outcomes and the annual spend profiles attached.” We further seek timescales for completion of this work.</p>	<p>Improving our outcomes data to support better linkages to budget decisions remains a priority for the Scottish Government, alongside better supporting financial planning into the longer term. Work is taking place across portfolios within this ambition.</p> <p>Key examples include multi-year programmes on child poverty and climate change which have included a range of activities to scrutinise the potential effectiveness of actions and interventions in the delivery of the overall objectives / outcomes. Spend is expected to be part of these assessments.</p> <ul style="list-style-type: none"> <li>• <u>On climate change and Net Zero</u>, the Scottish Government and Scottish Parliament concluded a Joint Budget Review on Climate Change in December 2022, laying out a series of reforms to identify and present climate impact during the budget process. These reforms include developing an enhanced taxonomy to classify climate impact in a uniform manner across both resource and capital, alongside development of a Net Zero Assessment to better align carbon reduction outcomes with their associated policies and spending commitments. Ministers have agreed to update Parliament on both of these areas of work in May and August of this year. The Joint Budget Review implementation will also reinforce the development of the next draft Climate Change Plan, due to be laid in Parliament in November 2023. This is for the first time required by law to provide detailed costs and benefits of the policies within the plan.</li> <li>• <u>With child poverty</u>, the development of actions set out in the <i>Best Start, Bright Futures – Tackling Child Poverty Delivery Plan 2022-26</i> – and approach to the Resource Spending Review were underpinned by robust evidence and analysis including a Cumulative Impact Assessment setting out the projected impact of action against future child poverty levels. The impact of action will be monitored through both progress toward the four targets set in statute by the Child Poverty (Scotland) Act 2017 and the revised Child Poverty Measurement Framework, which monitors changes in the drivers of poverty reduction over time. In addition, we have now established The Tackling Child Poverty Programme Board to oversee progress on the delivery of the Plan as well as its impact on outcomes. Scottish Ministers will provide annual updates to the Scottish Parliament in relation to the implementation of the Plan and progress toward the targets, with annual Budget considerations being informed by this evidence.</li> </ul> <p>All programmes in the Scottish Government are expected to deliver value for money with closely tracked spend and the delivery of clear objectives for Ministers linked to national outcomes.</p>

Para No.	Comment/Recommendation	Response
124	<p><b>National outcomes review</b> - The Committee notes that the Scottish Government has confirmed that the detailed proposals for the Wellbeing and Sustainable Development Bill will not be forthcoming until after the next statutory Review of the National Outcomes, which itself must start no later than June 2023 and is planned to conclude later in 2023. The Committee therefore requests confirmation of when this Review will begin. We also ask the Scottish Government to consider any changes as part of the Review of National Outcomes that would better link the impact of budget decisions to the delivery of National Outcomes.</p>	<p>Public engagement for the Review of National Outcomes is on course to start before June 2023.</p> <p>In developing the Wellbeing and Sustainable Development Bill, the Scottish Government is considering how the National Performance Framework – as Scotland’s wellbeing framework – could be further embedded in the practices of government and public bodies.</p>
127	<p><b>Equalities – Intersectional gender analysis</b> - The Committee asks for details of how the Scottish Government is taking forward "integrating intersectional gender analysis to its policy making as part of its wider work on equality and human rights budgeting", and to what timescale. We again seek evidence to support how this approach will lead to robust and transparent processes to evaluate all policies and outcomes for gender impact.</p>	<p>We accept the principle of integrating intersectional gender analysis into our policy making, to better inform the Scottish Budget process, and will take this forward as part of our wider work on equality and human rights budgeting. The current cost of living crisis emphasises the importance of this work. We recognise that the impacts of the crisis will not be felt equally, but will disproportionately affect some households and groups, including women. We have actively engaged during this period and prior to the publication of the 2023-24 Scottish Budget the Deputy First Minister met with Engender and Scottish Women’s Budget Group to ensure their views were heard.</p> <p>We are taking forward work in this area - the structure of the <a href="#">Equality and Fairer Scotland Budget Statement</a> requires every portfolio to examine the impact of their budget on gender and that can be seen in-depth in Annex D. growing competence in this area. We have awarded funding of £220,000 over 2021 to 2024 to the <a href="#">Scottish Women’s Budget Group</a> to work with civil society groups and local authorities to raise awareness of, and build capacity in, gender budgeting. The National Advisory Council on Women and Girls 2020 recommendations called on the Scottish Government to ‘integrate intersectional Gender Budget Analysis into the Scottish Budget process, and to give this a statutory footing’. We are exploring whether the Public Sector Equality Duty Scottish Specific Duties could be an appropriate vehicle to place this on a statutory footing as recommended by the advisory council. As part of our consultation on the review of the operation of the Public Sector Equality Duty in Scotland, we have requested stakeholder views on the practicalities and feasibility of placing a duty on listed authorities to do this.</p>



Para No.	Comment/Recommendation	Response
130	<p><b>Equalities – Social Security data</b> - The Committee plans to pursue with Social Security Scotland when it will provide to the Scottish Fiscal Commission the data obtained from equality monitoring forms for child disability payments, including on sex and gender, given the SFC has confirmed that this has a potential impact on the robustness of take-up forecasts.</p>	<p>We are committed to providing the Scottish Fiscal Commission with as much information as we can to enable them to provide accurate forecasts to the Scottish Government. Social Security Scotland is reviewing the Commission’s recommendations and has work already underway to enhance their data gathering and analysis capability.</p> <p>Social Security Scotland will continue to work closely with the Scottish Fiscal Commission to ensure they have the data they require for their next round of forecasting and for future forecasts.</p>
138 - 139	<p><b>Public sector pay and headcount targets</b> - The Committee acknowledges the difficulties arising from soaring inflation this year and the knock-on implications for public sector pay and public spending overall. Nevertheless, the Committee was disappointed there was no detail in the budget on whether or not the Resource Spending Review targets around public sector pay and headcount remain, and, if so, how these might be achieved.</p> <p>The Committee would welcome details from the Scottish Government on whether it still intends to retain the target of keeping the pay bill at 2022-23 levels, and further details of its intentions around the public sector headcount and how this will be achieved. The Committee in particular asks from which areas of the public sector the reductions in headcount to pre-pandemic levels will be made, and to what timescales.</p>	<p>The Resource Spending Review set out high level ambitions for the devolved public sector (excluding local government) - no targets were set for individual bodies. In the 2023-24 Scottish Budget, our approach to ensuring sustainable public bodies was developed within the overall aim of ensuring a financially sustainable workforce.</p> <p>In the 2023-24 Scottish Budget, we set out that it is for individual public bodies to ensure workforce plans and projections are affordable in 2023-24 and in the medium term. Public bodies will have to take forward their plans within the resources that the Government has made available. This recognises that the 2023-24 budget allocations reflect our priorities as well the accountability of public bodies to deliver efficiently and effectively within their budget.</p> <p>Pay and workforce must more than ever be explicitly linked to both fiscal sustainability and reform to secure the delivery of effective public services over the medium term, while supporting wellbeing and following our Fair Work principles.</p>



Para No.	Comment/Recommendation	Para No.
140	<p><b>Public sector pay 2023-24</b> - In the interests of transparency, it would have been helpful for the Scottish Government to have set out parameters for pay in 2023-24, alongside more detail of its public service reform plans. This would assist in budget planning across the public sector. The Committee requests that a public sector pay policy for 2023-24 is published as soon as possible, albeit the Committee recognises the added complications whereby some pay deals for 2022-23 remain outstanding and the potential for multi-year settlements.</p>	<p>As the Committee is aware, given the uncertain inflation outlook and the need still to conclude some pay deals for the current year, the Government did not publish a public sector pay policy at the time of introducing the 2023-24 Scottish Budget.</p> <p>We are now considering the most recent inflationary trajectory over the next 12 - 18 months and working on a Pay Strategy for 2023-24 in collaboration with stakeholders. This will set out key principles and recognise the link between pay, public service reform and workforce.</p> <p>Pay and workforce must be explicitly linked to both fiscal sustainability and reform to secure the delivery of effective public services over the medium term. We expect to publish the strategy by the end of March 2023.</p>

<p><b>Report Para No.</b> 149-151</p>	<p><b>Public service reform</b> - The Deputy First Minister’s evidence to the Committee casts doubt on whether the Scottish Government still intends to fulfil the RSR commitment to publish its expected initial outcomes or plans on delivery of its public service reform programme. The evidence provided also gives rise to concerns that the key driver for reform has now shifted from delivering effective and sustainable public services to one largely based on achieving efficiencies.</p> <p>The Committee is disappointed that the Scottish Government's initial outcomes and plans for its public service reform programme have not been published. This is particularly so given the comments by the Auditor General for Scotland that public service reform is “now urgent” and the evidence we heard that “there has never been a more important time to consider prioritisation in public services and productivity-enhancing reforms in the public sector.” If the Scottish Government has decided to no longer publish its plans and initial outcomes, we would have expected it to have announced and explained this decision, to enable transparency and scrutiny. We are further concerned that there may be no overarching framework and strategy in place with overall aims, costs and savings anticipated from reform. We urge clarity on this matter.</p>
<p><b>SG Response</b></p>	<p>The Scottish Government is committed to reform, with the aim of ensuring that resources are deployed in the most effective and sustainable ways to improve outcomes. This commitment is not a single programme.</p> <p>We have framed our response around a set of strategic priorities, which are most recently articulated in the Budget document: eradicating child poverty; transforming the economy to deliver a just transition to Net Zero; and ensuring sustainable public services. The work to take forward these priorities is being channelled through multiple, and often inter-connected, programmes. These include:</p> <ul style="list-style-type: none"> <li>• “Best Start, Bright Futures,” our second Tackling Child Poverty Delivery Plan, which sets out a range of actions across government focused on breaking the cycle of poverty for families</li> <li>• Keeping the Promise, with non-stigmatised access for families to the help they need, when they need it, and with early intervention and prevention at its core.</li> <li>• Education Reform – establishing a new national agency for education, a new qualifications body and a new inspectorate to replace the Scottish Qualifications Authority and Education Scotland, in order to better support and promote improved outcomes and continuous improvement through co-design and co-creation with learners, families, practitioners and providers</li> <li>• National Strategy for Economic Transformation, which outlines our vision and supporting actions for a stronger, fairer and greener economy that contributes to tackling child poverty and addressing the climate crisis.</li> </ul> <p>Collectively, these programmes are intended to ensure the sustainability of services and improving outcomes through a framework of key elements. This includes:</p> <ul style="list-style-type: none"> <li>• reducing unnecessary cost;</li> <li>• focus on service delivery around prevention and early intervention which moderates demand for expensive crisis intervention services; and</li> <li>• Shaping responses around what people and places most need from their public services.</li> </ul>

This framework also lies behind our approach to public bodies reform. Since the RSR we have reflected carefully to ensure our approach best responds to the challenges our public services face. We set out our twin-track approach to reform of and within public bodies in letters which Scottish Government Directors-General issued to public body chief executives in January.

The actions we are taking are consistent with the RSR commitments.

Firstly, we have asked public bodies to identify any opportunities for further efficiencies and joined-up service delivery that directs collective resources towards shared priorities.

- This should include both “quick wins” and work of longer duration which public bodies can pursue directly.
- It includes opportunities to make savings and achieve efficiencies on estates, audit, human resources, finance and procurement.
- It also goes further to include, for instance, opportunities for revenue raising; and to work around barriers to holistic, person-centred, place-based public service delivery – including to prevent people falling into crisis and moderate the future cost to public services of failure demand.
- Importantly, we are placing a particular emphasis on collaborative working, which can result in more efficient joint operations and joined-up service delivery that directs collective resources towards shared priorities.

The second element will be reviews of the public bodies landscape and use of resources. These landscape reviews will be phased over a multi-year period.

- They will examine wherever public services can operate and be delivered in more impactful and efficient ways.
- They will also look more fundamentally at issues around service model transformation - including how services best holistically support improved outcomes and vibrant communities; and the merits of a digital business model.

We expect these reviews to be taken forward jointly with public bodies. They should involve clusters of public bodies with shared interests and other relevant bodies and organisations.

Officials are planning these next elements Our next steps will be to further dialogue with public bodies chief executives in the coming weeks to set out further detail on a process that sees the collaborative development of transformation plans which cover the rest of the RSR period. Our expectation is that these plans should be submitted later in 2023, so they can inform the 2024-25 Scottish Budget.

This work is complex. Achieving results in full will require concerted deep-rooted action through a whole system approach that we know will take time. The scale of success we seek will depend on combinations of organisations committing and contributing to a vision of effective, sustainable person-centred services that is both ambitious and achievable.

<b>Report Para No.</b>	<b>Public service reform</b> - The Committee also seeks clear and detailed data on how the Scottish Government plans to achieve each of the following five priorities for reform as set out in the Resource Spending Review of:
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152-153	<ul style="list-style-type: none"> <li>• Digitalisation;</li> <li>• Maximising revenue through public sector innovation;</li> <li>• Reform of the public sector estate;</li> <li>• Reform of the public body landscape, and</li> <li>• Improving public procurement.</li> </ul> <p>We ask for details of the milestones for delivering each of these priorities, along with the costs, efficiencies and savings it anticipates as a result. It is unclear how the Scottish Government is supporting public bodies to deliver each element and we would therefore welcome details of the guidance and support it has in place.</p>
<b>SG Response</b>	<p>The actions set out in our response to paras 149-151 will identify where there are valuable opportunities to reform the public bodies landscape, and wider work to ensure that resources are deployed in the most effective and sustainable ways to improve outcomes. This wider work can identify opportunities for digital reform, revenue generation, estates rationalisation and improved procurement. Details of savings, costs and milestones will emerge from the plans that public bodies produce and which flow from more formal reviews. The following paragraphs set out ways in which Scottish Government is providing support.</p> <p><b>Digital Work Programmes</b></p> <p>Public services that are responsive, inclusive and simple to use are dependent upon people having good connectivity and the skills and confidence to use technology to access them. Our Digital work programmes are supporting the reform agenda by focusing on developing common platforms and digital transformation. These will provide the building blocks for transforming the way government operates, centred on the user experience and implementing digital thinking as well as digital technology across the public sector.</p> <p>We are progressing several work programmes through this spending review. For example:</p> <ul style="list-style-type: none"> <li>• The Digital Payments Programme will drive efficiencies by providing a centralised payments out/in digital service for public sector organisations.</li> <li>• The Digital Identity Programme will deliver a better user experience, by providing a single digital identity for Scottish citizens to access public services in Scotland.</li> <li>• The Cloud First Programme enables the Scottish public sector to realise the benefits of secure cloud hosting services through accelerating the adoption of modern cloud technology.</li> <li>• The digital planning programme will deliver modern public services that will make planning more accessible, engaging and efficient, realising economic and customer service benefits.</li> </ul> <p>Through the Digital Programme we will start to look beyond individual services and programmes, and consider the overall functioning and capability of the system. This work will create conscious system design and management to enable the delivery of quality digital public services that are easy to access, predictable and effective. The 2023 work programme currently being scoped is likely to include:</p> <ul style="list-style-type: none"> <li>• Scottish Government level control of digital investments through a prioritisation process, based on business need and contribution to digital public services. This would deliver a portfolio of programmes and projects which is right-sized to available funds and capability.</li> </ul>

- 'Red lines' to apply mandatory requirements for key digital elements such as architecture, data, design, and programme and project management, to develop the overall system coherence and leverage investment over time.
- Targeted support for digital transformation, focused on the design, data, architecture, capability and commercial components of the change process.
- Greater control over digital capability, including recruitment, allocation and development, to ensure priority digital initiatives are appropriately resourced and to enable long-term delivery planning with a reduced reliance on high-cost contract resource.

#### **Maximising revenue through public sector innovation**

- Initial discussions on revenue raising in the public sector have been held between Scottish Government officials and public bodies.
- These discussions focused on surfacing potential barriers to progress how the Scottish Government can support public bodies in considering new revenue raising options and alternative funding models.
- There is agreement that any developments in this area must take into account the impact of any new revenue raising measures on individuals and businesses.
- Officials are now developing guidance focusing on broad principles, defined processes and financial practicalities intended to support public bodies when considering, developing and implementing new ideas.

#### **Estates**

- Scottish Ministers fund estate which sits in all areas of government including central government bodies, the NHS, Higher and Further Education, Blue Light organisations and local authorities.
- The Single Scottish Estate programme will build on existing good practice and work collectively to develop and deliver targets to retain the right size and condition of estate in the right places at the right times across all publicly-funded bodies in Scotland.
- The RSR re-affirmed the Scottish Government commitment to minimise cost and maximise best value in relation to the public sector estate.
- A programme of work is underway that supports this commitment. It enables a more efficient approach to public sector property management to deliver value for money, save public funds, reduce the public sector property footprint and progress towards our net zero estate targets.
- The Single Scottish Estate programme will support publicly-funded bodies to work across organisational boundaries to co-locate, share on-site services wherever possible, make best use of technology and changes in working practices to optimise the estate footprint and release surplus space.
- A place-based approach working with all stakeholders will identify opportunities for short, medium and longer-term improvements and will align with the review of public services and our collective duty to deliver Net Zero commitments. We will work together to retain the right estate in the right places at the right times.
- Supporting public bodies to work in this way requires and has initiated improvements in property data for strategic planning, place-based reviews, setting short, medium and longer-term property KPI's and actions, collaborative working across silos and organisational boundaries.
- This will minimise costs and footprint whilst planning for efficient business delivery and stepping towards a net zero estate with fresh guidance and policies and a strong stakeholder engagement plan. Scottish Government's Single Scottish Estate programme will continue to deliver expert advice and lead pathfinder solutions as the programme builds on existing work to innovate, transform and improve Scottish Ministers' estate.

- A national oversight board will shortly be put in place, including key public bodies and chaired by the Scottish Government Chief Surveyor, to oversee this programme of work. A detailed milestone plan will be developed with the public bodies for the oversight board's scrutiny and support.
- This will be complemented by a Public Sector Property Forum, which will share good practice and be able to raise matters to take to the oversight board for consideration. All public bodies will be invited to join the Forum. The first meetings of both the oversight board and forum will take place during February and March and fresh guidance and place-based reviews will be rolled out thereafter.
- We will update the Finance and Public Administration Committee on progress of this work in due course.

### **Improving Public Procurement**

- The focus of procurement is not only on efficiencies and savings. It is on maximising the impact of our spend on sustainable outcomes.
- The sustainable procurement duty, outlined in Procurement Reform (Scotland) Act 2014, aligns with the National Performance Framework and Scotland's Economic Strategy.
- Compliance with the sustainable procurement duty is the mechanism through which public procurement contributes to and tracks its contribution to our overarching purpose with each contracting authority required to set out in its procurement strategy how it intends to comply with the duty, and report annually on progress.
- This underpins transparency at a local level, with the impact of procurement across Scotland – which includes the outcome of continuous improvement activities - outlined and published in the [Ministers Annual Report on Procurement activity across Scotland](#).
- To minimise the burden on local procurement teams (and suppliers) and to help underpin consistency of practice across Scotland, we provide, fund and/or resource a wide range of central support mechanisms.
- Where we can, we buy once for Scotland to achieve Value for Money and efficiencies offering collaborative national and sector frameworks, within which we embed national procurement policy to maximise sustainable outcomes.
- We fund and provide national e-Commerce systems; toolkits for buyers and suppliers; procurement policy and best practice guidance/ support.
- We also fund, resource and/or facilitate access to a wide range of offerings to build local capability and underpin continuous improvement.
- We are committed to driving further improvements through our 'Plan for the Future' programme, led by the Scottish Government, governed by the cross-sector Public Procurement Group and engaging public, private and third sectors to test and inform priorities and approaches. This covers a number of national and Scottish Government programmes and workstreams to drive and underpin improvement, including:
  - Publication of the first 'Public Procurement Strategy for Scotland' due to be published early April 2023;
  - Future e-Procurement Strategy to maximise efficiency, effectiveness and reporting capability across Scotland;
  - Maximising the Impact of Procurement Programme, aimed at using the full flexibility of the rules to deliver on our priorities and underpin continuous improvement.
  - Milestones and progress reports are tracked through our PMO, reporting regularly to our governance board, steering group and key stakeholders.

Para No.	Comment/Recommendation	Response
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154	<p><b>Public service reform and fiscal sustainability</b> - The Committee accepts that the immediate financial pressures have required a significant and concerted level of focus by the Scottish Government. The Deputy First Minister has confirmed that the next four years will also be “really tough on the public finances.” We acknowledge the significant challenges ahead, however, on the basis of the evidence we have heard, the Committee is not convinced that the Scottish Government is carrying out enough strategic long-term financial planning to ensure future fiscal sustainability, including in relation to how it meets its public service reform and social security commitments. It is clear from our scrutiny of the Scottish Budget 2023-24 that the Scottish Government is firefighting on a number of fronts.</p>	<p>The current financial situation is incredibly challenging and requires the Scottish Government to fully consider all options for reform. This will ensure public services remain fiscally sustainable and are designed and delivered in line with Christie principles.</p> <p>The work set out in our response to paras 149-151 is founded on a commitment to strategic long-term financial planning that ensures future fiscal sustainability. This includes through the focus we are placing on front-line service delivery as well as organisational structures and back-office functions – in particular to promote holistic, person-centred, place-based public service delivery which can both prevent people falling into crisis and moderate the future cost to public services of failure demand.</p> <p>The 2023-24 Budget sets out an approach to maximise available funding in year, with full use of the limited borrowing powers under the fiscal framework and, in line with the borrowing policies set out in our Medium Term Financial Strategy, this has been achieved by considering fiscal sustainability in the long term. This will support addressing the short term needs of a cost of living crisis without compromising fiscal sustainability in the long term.</p> <p>We 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.</p>
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Para No.	Comment/Recommendation	Response
155	<p><b>Public service reform updates</b> - The Resource Spending Review is now out of date and there is no public sector pay policy for 2023-24, while the expected plans for public service reform have disappointingly not materialised, presenting difficulties for public bodies in their long-term financial planning and service delivery.</p> <p>The Committee seeks assurances and evidence that the Scottish Government is taking steps to address these omissions as we continue our scrutiny of the sustainability of public finances in Scotland throughout the year, including the SFC's forthcoming Fiscal Sustainability Report in March and the Scottish Government's Medium-Term Financial Strategy in May. We would also like to see evidence that the Scottish Government is suitably focused on striking the right balance between responding to the immediate financial pressures and addressing long-term fiscal challenges.</p>	<p>The Resource Spending Review (RSR), published in May 2022, was based on the best available information at that time, setting out an ambitious but realistic strategic public spending framework. It outlined how funding would be invested in delivering on priorities over the period, providing a basis for us and our partners to plan together.</p> <p>The Government is working on a Pay Strategy for 2023-24 in collaboration with stakeholders. This will set out key principles and will recognise the link between pay, public service reform and workforce. We expect to publish the strategy by the end of March 2023.</p> <p>The Scottish Government continues to do all it can to manage the public finances through diligent risk management and medium term financial planning within the limited powers available to us. Our approach is set out in our Medium Term Financial Strategy, which will be updated later this year alongside revised Scottish Fiscal Commission forecasts. The Scottish Fiscal Commission's Fiscal Sustainability Report will provide a valuable contribution to understanding and awareness of longer-term risks to the sustainability of the public finances.</p>