Finance and Public Administration Committee

23rd Meeting 2022 (Session 6), Tuesday 20 September 2022

Pre-budget scrutiny: Scotland's public finances in 2023-24: and the impact of the cost of living and public service reform

Purpose

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

Panel 1	Auditor General for Scotland, Chartered Institute of Taxation, and David Hume Institute
Panel 2	COSLA and South Lanarkshire Council

2. The written submissions provided by these witnesses to the Committee's inquiry are attached at **Annexe A**. All 44 submissions received to the call for views, which was launched on 24 June and closed on 19 August, are published on the Committee's web pages.

3. A summary of evidence, produced by SPICe, is at **Annexe B**.

4. This paper provides further background to inform the evidence session on 20 September.

Context

5. The Committee held evidence sessions on 7 June with the Scottish Fiscal Commission (SFC) and the Cabinet Secretary for Finance and the Economy, which set the context to, and informed, the Committee's approach to its pre-budget scrutiny. The focus of this evidence-gathering was on Scotland's Economic and Fiscal Forecasts – May 2022 published by the SFC, and the Scottish Government's first Resource Spending Review (RSR) since 2011, and its fifth Medium-Term Financial Strategy (MTFS). All three documents were published on 31 May, alongside the Outcome of the Scottish Government's Targeted Review of the Capital Spending Review, which set out updated spending allocations for 2023-24 to 2025-26.

6. The MTFS provides the medium-term economic and fiscal outlook and the context for the Scottish Government's spending decisions, whereas a spending review is intended to provide a means of prioritising and identifying potential savings options associated with existing expenditure. The Cabinet Secretary explained in evidence on 7 June that the RSR "is not a budget [and] the numbers will fluctuate further", adding "it is clear that choices will have to be made in future Budgets over the remainder of the parliament that take account of the challenges the Scottish economy faces".

7. The SFC Forecasts explain that "the Russian invasion of Ukraine, steeply rising energy prices and further global supply chain disruptions in China have led to a challenging economic outlook" and that Scotland and the UK face the biggest annual fall in living standards since equivalent Scottish and UK records began. The Cabinet Secretary highlights in her Foreword to the MTFS that "rising inflation, and the consecutive increases in the Bank of England Interest Rate, are also increasing budgetary pressures on the Scottish Government and public bodies, and will put pressure on our public services in real terms".

8. The SFC noted that the main focus of its May Forecasts has been on inflation and the cost of living crisis across many households. After taking account of the block grant adjustment, the position with income tax has worsened since their December 2021 forecasts, and will continue to do so this year and next, before improving for the remainder of the spending review. The Scottish Government's funding, they explain "comes under further strain in 2024-25 when it faces a negative income tax reconciliation of over £800 million". When its forecasts on social security spending are added to the Scottish Government's plans for health and social care spending, "the funding lifts for other portfolios are very constrained", and "once adjusted for inflation, funding in those other areas will fall substantially for the first three years of the spending review period".

9. The Cabinet Secretary explained in her evidence to the Committee that the Scottish Government's RSR priorities are "tackling child poverty, transitioning to net zero, economic recovery, and strengthening the public sector in Scotland", and that responding to the cost of living crisis had also been added to this list of priorities. She said "we have also set out commitments to drive reform and greater efficiency across the public sector because, notwithstanding the current uncertainties, the funding position is constrained". In achieving effective public services, the RSR identifies the need for "an enhanced focus on delivering efficiency savings across the public sector" over the life of the Parliament[1], including through: digitalisation; maximising revenue through public sector innovation; reform of the public sector estate; reform of the public body landscape, and improving public procurement. The RSR states that the public service reform programme will be undertaken over the remainder of the Parliament, with initial outcomes to be reported in the 2023-24 Scottish Budget, "underpinned by delivery plans to be produced by individual public bodies".

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[1] Which the RSR indicates "generally excludes local government given their separate responsibilities".

10. The Committee has previously heard evidence that budget planning should be better linked to delivery of national outcomes in the National Performance Framework, however, there is only passing mention of national outcomes in the RSR.

11. Since these documents were published in May 2022, inflation (Consumer Price Index) rose to 10.1% in the 12 months to July, before dipping to 9.9% in August.[2] The Bank of England has indicated that inflation could peak at more than 13% this year. Ofgem announced in August that the energy price cap would increase to £3,549 per year for an average household from 1 October 2022. Pressures from inflation and a cost of living crisis has prompted public sector pay increases costing £700m more than Ministers had originally budgeted for. The First Minister, in her statement to Parliament on 6 September, indicated that the current year's budget is worth £1.7bn less than when it was published in December 2021.

12. In response to the planned increases to the energy price cap, the Prime Minister announced on 8 September an Energy Price Guarantee which will limit the price suppliers can charge customers for units of gas, as well as a temporary removal of green levies from bills. This is in addition to the previously announced £400 energy bills discount for all households. The UK Government argues that, under these plans, a typical UK household will pay no more than £2,500 a year on their energy bill for the next two years, from 1 October 2022.

13. The Prime Minister has also announced that the UK Government will deliver a fiscal event in September. The Deputy First Minister has committed to setting out the outcome of the Scottish Government's Emergency Budget Review within two weeks of this UK fiscal event. He also wrote to the Committee on 7 September including "a list of savings that the government has already identified to enable us to meet our increased costs, increase help for those hit by the crisis and fund enhanced pay settlements". The letter further noted announcements made by the First Minister to "take forward a rent freeze and moratorium on evictions to help people through the cost crisis, increase the Scottish Child Payment to £25 per week per eligible child from November, double the Fuel Insecurity Fund to £20 million and confirm rail fares will be frozen until March 2023". The First Minister, in her statement to Parliament on 6 September, suggested that paying for cost of living support "will mean stopping some of the things we planned to do to fund what is essential to support people through this crisis", while the Deputy First Minister indicated in his letter that "further savings will be required to balance the budget, particularly if inflation continues to rise, and to direct maximum support to those who need it most".

14. The Office for National Statistics published its latest Labour Market in the Regions of the UK publication on 13 September 2022, which noted that the unemployment rate in Scotland was 3.1%. This compares to 3.6% in the UK as a whole. The employment rate in Scotland was 75.2% while in the UK it was 75.4%, with Scotland seeing the "largest increase in the employment rate compared with the same period last year" of

[2] ONS statistics 14 September 2022

any area of the UK (alongside the West Midlands) of 1.1%. The economic inactivity rate in Scotland was 22.4% compared to the UK rate of 21.7%.

Committee's approach

15. 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. While all committees draw on the MTFS each year to inform their pre-budget scrutiny, this year the RSR provides more context and detail to support that scrutiny.

16. The Committee's call for views was launched on 24 June and closed on 19 August, focusing on the following key areas:

- the impact of the cost of living crisis on the Scottish Budget 2023-24,
- proposals for public service reform and delivery of efficiency savings,
- how spending priorities might affect the delivery of national outcomes,
- responding to the challenge of relative income tax growth,
- how spending in the budget should be used to achieve net zero targets,
- current taxation policies and spending priorities, and
- ensuring fiscal transparency to allow spend to be identified and tracked.

Written submissions

17. As noted above, the written submissions are reproduced in full at Annexe A, while a summary of some of the key points are below.

18. The response from the Auditor General for Scotland highlights that decisions on tax policy by both the Scottish and UK governments impact on the Scottish budget, and that the Scottish Government can choose to replicate UK Government tax policy or diverge from it. He argues that "whichever choice is made, this should be clearly reported and considered against the assumptions set out in the RSR and in annual Medium-Term Financial Plans, so the implications for annual budgets and fiscal sustainability are known and understood. The AGS points to "social security spending increasingly outstripping associated Barnett consequentials over time as new more generous payments are introduced in Scotland" and notes his previous calls for the Scottish Government to plan for how it manages the long-term sustainability of this expenditure and be clearer about how it will improve outcomes for Scottish people". He argues that "structural reform in the public sector can take time to achieve and generate short-term costs" and so the Scottish Government should be "realistic in its budgets about the speed and extent of efficiency savings, as well as reporting openly about the potential effect on services it delivers". The AGS goes on to note that deviation from the central spending scenario in the MTFS, which factors in a 2% annual pay award and a 1% annual workforce increase, will have a significant effect on the Scottish Budget. He

again argues for transparency in reporting these risks and variances from the RSR and MTFS arising over time, which he argues “remains crucial to parliamentary scrutiny”.

19. The David Hume Institute (DHI) highlights in its submission that, in its research with people across Scotland, “housing comes up as a key priority from individuals and is critical to achieving NPF targets”. It therefore argues that “better use of existing measures such as Rent Pressure Zones and Short-Term Let Control Areas, as well as innovative action in hotspots of second home ownership could help tackle rising housing costs and insecurity”. It also calls for more spending on public transport to help reduce carbon emissions and cut household fuel costs”. The DHI notes “an urgent need for the Scottish Government to reduce levels of ‘inactivity’ amongst the workforce” and suggests that “working to remove barriers for those who want to work and supporting people in transitions between working and receiving benefits would have an effect across the Scottish Government’s priorities”. It goes on to say that “the Scottish Government’s commitments to Open Data are essential to realising the benefits of digital public services”, adding its “briefing paper indicates that over 95% of data that could be open is still locked up, at an estimated annual cost to the Scottish economy of just over £2bn”.

20. The Chartered Institute of Taxation (CIOT), in its response, highlights that the Scottish Government’s decision to freeze the Scottish higher rate threshold at £43,662 (as opposed to £50,720 in the rest of the UK) is likely to mean that more people are brought into the higher rate bracket as wages increase”. It goes on to note UK Government plans to cut the basic rate of income tax by 1p to 19p from 2024 and comments made by the incoming Prime Minister that she intends to cut taxes further. CIOT indicates that “it is uncertain whether a more pronounced difference between Scotland and UK income tax rates would reduce Scotland’s attractiveness to higher earners to come to Scotland from other parts of the UK”. CIOT is pressing for progress with the Scottish Government’s ongoing review of the additional dwelling supplement and for “clarity on whether and when … issues may be resolved” around the proposed devolution of Air Passenger Duty. It further expresses concerns that substantive reform of council tax is “unlikely to happen in the 2021-22 parliament”, despite support for this from parties across the Parliament.

21. In its submission, COSLA argues that prioritising funding for health and social care and social security “does not resolve the underlying causes of poor health and wellbeing”, adding that “education, housing and employment are all key social determinants” and investment is needed to “prevent problems”. It highlights that “the 7% real-terms reduction in core funding for local government will mean that, by 2026-27, there will be £743m less in real terms to spend on frontline services that matter most to communities – equivalent to 20,000 fewer local government jobs”. COSLA goes on to note the expectation in the RSR that public bodies will deliver 3% recurring annual efficiencies during the RSR period “fails to acknowledge that local government has already achieved significant efficiencies” and “any ‘easy’ savings have been made”, with further reductions having a major impact on services. COSLA also argues for urgent work on reforming council tax and additional powers to “set planning and building

control fees locally, ensuring full cost recovery, or the power to introduce a 'tourist tax'". In terms of net zero, COSLA argues that "we … face a delivery gap against our shared mitigation and adaptation ambition", which it suggests arises "in part, from the funding and effectiveness of national programmes and lack of funding and capacity within local government and the wider public sector to innovate and pursue local projects and programmes which enhance or build upon the national programmes". The response notes that the proposed National Care Service "poses a risk to councils' ability to deliver a wide range of services for communities – including non-social work and care services – resulting in a destabilising of the local government workforce and potentially impacting on the sustainability of some councils to carry out their functions and responsibilities".

22. In its submission, South Lanarkshire Council (SLC) acknowledged that Health and Social Care and Social Security are considered priorities but that it comes at a cost of reducing other budgets. As such, "ring-fencing and prioritising of certain areas … is a significant factor in the budget gaps that councils are facing across Scotland". SLC elected members were advised on 15 June that the budget gap it faces in its 2023-24 revenue budget was £37.541m "before any solutions are identified and applied" and this "will mean tough decisions regarding the sustainability of key services that citizens depend on, especially the vulnerable". SLC highlights the role played by local government in responding to the cost of living crisis, including "money advice, support into employment, backing for the Living Wage, the Council Tax reduction scheme and in many other ways, [and] without the recognition of that key role in financial settlements, many of these services will be more difficult to deliver". Against this background, SLC is considering more "creative ways to maximise revenues", including "expanding charges for services, full cost recovery and working in partnership with private partners to bring in investment, such as electric vehicle charging and energy production/management. In relation to the proposed National Care Service, SLC goes on to argue that "structural change is not necessary to achieve the outcomes articulated in the review of adult social care: the same results could be achieved more quickly, and at lower cost, with targeted investment and appropriate reform within existing structures". Finally, it calls for "a move to a more collaborative approach to budget setting" to achieve transparency.

Next steps

23. The Committee will continue to take evidence in relation to its pre-budget scrutiny on 27 September with a round-table session, before taking evidence from the Deputy First Minister on 4 October.

Committee Clerking Team
September 2022

ANNEXE A

Written Submissions

Written Submission from the Auditor General for Scotland

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

As I highlight in my recent reports on Covid-19 finances, difficult decisions lie ahead for the Scottish Government. The nature of the external risks to tax revenues and spending is varied and significant, compounded by pre-pandemic financial sustainability concerns, and continuing global economic factors.

For tax, the fiscal powers, enacted in the Scotland Acts 2012 and 2016, inherently bring increased uncertainty, volatility and complexity for the budget, which the RSR expands over the medium term. Audit Scotland has explored this in more detail through our Operation of the Fiscal Framework briefing papers.

In devolved areas, the Scottish Government can choose to change its tax policies relative to the UK Government. The RSR reflects the current position including tax policy divergences to date, the largest of which relate to Scottish Income Tax. The Scottish Government has a Framework for Tax, which provides a good basis for showing how any future fiscal decisions map to the long-term outcomes for people in Scotland that the Scottish Government envisages.

Increases or decreases to the Scottish budget depend upon the relative performance of taxes compared to the rest of the UK. As such, it is not only changes to Scottish Government tax policy that will affect the Scottish budget, but also UK Government tax policy changes. For example, the UK Government intends to reduce its base income tax rate to 19 per cent from 2024/25. As there is no equivalent policy in Scotland currently, the RSR reflects the expected increases to the Scottish budget that the relatively higher base tax rate in these later years brings.

If UK Government tax policy changes, the impact of this on the Scottish budget, positive or negative, will need to be considered by the Scottish Government. The Scottish Government can choose to replicate UK Government policy or to diverge from it.

Whichever choice is made, this should be clearly reported and considered against the assumptions set out in the RSR and in annual Medium Term Financial Plans, so the implications for annual budgets and financial sustainability are known and understood.

The funding available for spending outlined in the Resource Spending Review (RSR) is relatively static in real-terms over the medium-term, and less than during the pandemic, where one-off Covid-19 Barnett consequentials increased the overall budget. Our Scotland's financial response to Covid-19 report noted that, while additional Covid-19 spending programmes protected the financial position of public services in the short term, the underlying financial sustainability pressures previously facing many public services remain.

Alongside pre-existing issues, the RSR and the Scottish Fiscal Commission note the emerging uncertainties posed by rising inflation, rising energy costs and other global issues. It also shows that budget reconciliations for both devolved taxes and social security will have downward effect on the Scottish budget in the medium term. Against this uncertain backdrop, setting out proposed efficiencies, reforms and spending priorities is sensible. However, there are financial risks attached which the Scottish Government must manage closely over the medium term.

In its briefing on the RSR, the Scottish Parliament Information Centre states that even with real terms increases, commentators such as the Institute for Fiscal Studies and the Fraser of Allander Institute note that health spending remains tight. Inflationary pressures on drugs budgets and pay costs, which are a significant proportion of health spend, pose challenges, alongside existing financial sustainability issues, which have been shored up by Covid-19 spending over the past two years.

For social security spending, the RSR point to costs increasingly outstripping associated Barnett consequentials over time as new more generous payments are introduced in Scotland. These are demand led, and the impact of cost of living increases and economic uncertainty could further increase these obligations on the budget. I have previously reported that the Scottish Government needs to plan for how it manages the long-term sustainability of this expenditure and be clearer about how it will improve outcomes for Scottish people.

In the event that spending on priority areas increases, or future budgets allocate spending in excess of the current RSR indications, the Scottish Government will need to consider the impact on the financial sustainability of other areas of the budget, or its ability to use fiscal tools to alleviate this pressure. Proposed efficiencies outlined in the RSR may mitigate these to some extent, in which case any remaining overspends will need to be managed closely.

The planned increases in social security and health and social care spending reduces the spending envelope available for other areas of the budget. The remaining funding available once spending on health and social care and social security is taken into account, is lower than 2022/23 levels for the following three years in both cash and real terms.

The Scottish Government will need to monitor budgets in non-priority areas closely, to ensure that changing spending levels do not impact the financial sustainability of these services. This should include reporting over the medium term the effectiveness of the reforms and efficiencies outlined in the RSR to mitigate any such risks.

Transparency in reporting of any financial sustainability risks, including variances from the RSR and MTFS arising over time, remains crucial to parliamentary scrutiny. I continue to maintain an audit interest in the financial sustainability of Scottish Government, and have reported on the risks, including through my recent Scotland's financial response to Covid-19 and my annual NHS in Scotland publications.

The Scottish Fiscal Commission (SFC) notes that Scottish income taxes have grown more slowly than the rest of the UK and is forecasting Scottish taxes to be around £360 million less in 2023-24 than they would be without income tax devolution. The SFC is also forecasting that, as a result of forecast error, the Scottish Budget in 2023-24 could be £221 million lower. How should the Scottish Government's Budget 2023-24 respond to this challenge?

The SFC forecasts and the RSR itself reflect that both the Scottish economy and wider UK economy are in a state of volatility and uncertainty. Factors driving this include the aftermath of the pandemic, inflationary pressures and the war in the Ukraine. The 2023/24 budget will be based on the forecasts available at that point in time. As we have seen from the differences between December 2021 forecasts and May 2022 forecasts, these can change substantially over short periods.

The Fiscal Framework is intended to incentivise the Scottish Government to increase economic growth. Where the Scottish economy is performing relatively well, tax revenues will be higher and pressures on spending will ease. Where it performs relatively less well, this can negatively affect the budget via reduced revenues, reducing available funding and increasing spending demands.

Rising inflation will lead to higher tax revenues, but the Scottish Fiscal Commission notes that data suggest income tax revenues have been growing relatively more strongly in the UK than in Scotland in recent years. The Medium-Term Financial plan notes that forecast GDP growth and employment growth are lower in Scotland that the rest of the UK. This relative position is important to both devolved taxes and social security in the Scottish budget.

The MTFS states that the 10-year National Strategy for Economic Transformation (NSET) launched in March 2022 will help protect the Scottish Budget and improve Scotland's longer term fiscal sustainability by improving economic performance for Scotland. It does not however provide any detail of to what extent this will address the forecast growth rates, or how this will support the medium-term position.

The Scottish budget and other reporting arrangements on NSET should reflect to what extent policies are proving successful in growing the economy, and to what extent this is changing the medium-term picture for tax revenues. It is important that the impact of NSET and other measures relative to the rest of the UK is also kept under review through future medium term financial plans and annual budget reporting.

As well as differences arising from economic performance, reconciliations can also occur because of forecast error, namely that the expected relative revenues are different than outturns. The uncertainties inherent in the forecasting process mean that the actual amounts ('final outturns') will always differ from the initial forecasts, and the Scottish budget will be adjusted to reflect final outturns.

Recent tax outturn data, produced after the RSR's publication, suggest a better position than the negative reconciliation of £221m, namely a positive reconciliation of £50m. This is beneficial to the Scottish budget and is due to higher relative income tax to the rest of the UK, but is less than would be expected if economic performance with the rest of the UK was equal.

The SFC currently forecast a larger negative reconciliation of £817m in 2024/25. The IFS has noted, that part of this is due to the Scottish Government decision for the 2021/22 budget to use initial lower OBR forecasts of the block grant adjustment despite more recent (and higher) adjustment forecasts were available.

The fiscal framework sets out the fiscal tools, such as the Scotland Reserve and borrowing powers, available to spread the effect of upward and downward movements relating to taxes. The MTFS includes its resource borrowing policy, which is currently to borrow around 50% of the full income tax reconciliation.

To date the Scottish Government has been able to manage reconciliations through borrowing and reserves and it is reasonable to do so. However, it will need to monitor the medium-term closely to ensure that any unexpectedly large reconciliations can be managed between budgets without affecting the financial sustainability of services, or that ability to exercise its priorities.

As well as Audit Scotland's our Operation of the Fiscal Framework publications, I report to the Public Audit Committee annually on the administration of Scottish Income Tax alongside the National Audit Office. I will continue to monitor how the Scottish Government is using its fiscal powers and the implications for the Scottish budget.

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

The SFC expect higher inflation to result in a decrease in real earnings in 2022/23 before recovering in the medium term. This reduction in spending power is paired with an increase in expected living costs. It is likely that these will not be felt equally, given that lower-income households will spend a greater proportion of their income on food and fuel, particular drivers of inflation.

The Scottish Government will need to consider the impact of this on demand-led areas of spending such as social security costs, as well as the potential increase in the use of other public services. This will need to include how the cost-of-living crisis is affecting National Performance Framework outcomes. In December 2020, the Scottish Government reported on the impact of Covid-19 on the long-term trends in the National Performance Framework. It showed that the pandemic had slowed and, in some cases, reversed progress across many of Scotland's National Outcomes. A similar consideration of current pressures will also help scrutiny of how long-term outcomes are being impacted and whether budget priorities and wider spending are mitigating these.

Similar to Covid-19 spending, Scottish Government responses through its budget will work alongside UK Government measures, such as the £400 energy bill discount. As such, consideration of the impact of spending interventions, or increased spending pressures will need to factor in the UK, Scottish and local government responses. Inflationary cost pressures also affect the public sector's own costs. The efficiencies identified in the RSR, such as the public sector estate and procurement are areas that are open to inflationary pressures. The potential size of savings identified from rationalising estates of improving procurement processes could be offset by inflationary increases in costs. It is important that efficiencies are closely monitored, including considering to what extent rising costs are affecting the expected savings needed for medium-term budgets.

Public sector pay makes up a large proportion of the Scottish budget costs, and public sector workers are equally exposed to cost of living increases. The RSR also sets out an ambition to freeze the public sector pay bill, which currently stands at £22 billion per annum. Keeping the public sector pay bill at its current level while still allowing for pay increases will only be achieved alongside reductions in staffing levels. This may take time to implement, and it is important that this is done in a way that is financially sustainable and allows services to be delivered.

The MTFS sets out that the central spending scenario, on which the RSR is based, factors in a 2 per cent annual pay award and a 1 per cent annual workforce increase. At its higher scenario (3% pay award, 2.5% workforce growth), this would result in an additional cost of £1.3 billion by 2026/27.

Deviation from the central scenario therefore has a significant effect on the Scottish budget, where several portfolios are already seeing real-terms reductions over the medium-term. The impact of changes in public sector pay on the Scottish budget should be closely monitored against medium-term projections. Future budgets and medium-term plans will need to be clear about how deviations are being managed and funded, and how this is affecting spending towards priorities and wider public services.

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

[Please note, this is an overall response to the areas mentioned]

The RSR outlines a number of measures designed to support effective public spending, including reducing the public sector workforce over the medium term and rationalising the public sector estate. It is unclear at this point the speed and extent to which these measures will generate savings, and I am aware from the RSR and Medium-Term Financial Plan (MTFS) that work is ongoing in these areas.

Future medium-term plans and budget reporting should include an assessment of this progress against the RSR to highlight any increased or decreased budget risks. This would allow more transparent tracking between MTFS publications of how the risks and mitigations outlined in the RSR are transpiring. This will help the Scottish Government to plan future efficiencies, and to consider what is realistic in terms of savings and deliverability.

While the measures outlined are sensible, such measures can take time to implement and in the short-term will have costs attached. For example, digitisation can deliver long-term efficiencies and improvement in engagement with citizens but setting up new digitised processes will require spending in the budget.

The RSR states the work that is underway to take forward efficiency savings, including engagement with public body leaders, introducing changes to property policy in the Scottish Public Sector Finance Manual and developing a public procurement strategy for Scotland. Given the urgency of the savings required over the medium-term it is important that progress in the actions identified is monitored closely and reported upon. Finalising efficiency plans, in a way that is costed and has clear timescales for delivery should be prioritised. This will also help inform future medium-term plans and annual budgets as more information is known about expected savings identified as well as implementation costs.

The RSR also notes that there are currently 129 public bodies in Scotland, and “the persistence of key challenges, combined with shrinking fiscal resources together with our commitment to environmental and fiscal sustainability mean that reform is inevitable.” Further, the RSR states that it expects all public bodies to demonstrate that they remain fit for purpose, and that “we will be working with public bodies leaders in the months to come to make tangible progress on this taking account of the wide range of possibilities for change.”

As well as identifying the financial savings from such reform, the Scottish Government will need to report its consideration of how this will affect service delivery and outcomes for citizens in its approach. Again, structural reform in the public sector can take time to achieve and generate short-term costs. This should be reflected and reported upon as they progress, to understand that extent to which they are addressing the aims of alleviating fiscal pressure and supporting the environmental goals referred to.

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

How public sector services are delivered efficiently, effectively and economically is a core feature of public audit. As previously stated, that RSR states that plans are underway on how to meet these efficiencies. It is important that the Scottish Government is clear as these plans develop on the scale of efficiencies likely to be achieved, and the timeframe over which they will be realised. This will be vital to maintaining a viable medium term budget position which allows for the priorities of government to be progressed.

I would encourage any plans to be clear not only about budget savings, but about how the changes will affect how people access and use services, and any risks or challenges this brings as well as opportunities. The challenge for Scottish Government is to work urgently to identify and address the need for savings while also ensuring that this speed does not generate unintended consequences or create issues from the pace of planning. For example, digitisation must be done in a way that overcomes issues with digital exclusion for some citizens, and planning for estate rationalisation must be done effectively to ensure overspends do not occur as they are implemented.

To this end, the Scottish Government should be realistic in its budgets about the speed and extent of efficiency savings, as well as reporting openly about the potential effect on services it delivers.

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

The RSR is clear about its focus on priority areas, including reducing child poverty, climate change and public health. These are clear and vital long-term goals for Scotland. Outcomes take several years to achieve and the monitoring and reporting of progress against these, including the impact that spending, such as increasing the Scottish Child Payment and developing the National Care Service, is having is crucial. Maintaining and strengthening the reporting link between spending and outcomes is an area I have raised before, and there is more work to be done to ensure that the links between these are clear for effective scrutiny.

In the face of the short-term fiscal challenges, the Scottish Government's commitment to improving longer-term wellbeing outcomes is encouraging. However, progress towards the 11 performance outcomes is a shared endeavour; it requires contributions and interventions across all public sector portfolios and services as well as cooperation with the third and private sectors.

My submission to the Committee on delivering the National Performance Framework highlights the importance of reflecting the shared contributions that public sector services and interventions make together towards these goals. Some of these contributions will be made by public services in non-priority areas of the budget, such as police and universities. As such, analysing and reporting upon how portfolio budgets are working together towards shared goals is vital. This should include considering how changes in budget levels between portfolios is affecting progress, allowing better scrutiny and informing future budget decisions.

In my report on Covid-19 finances, I highlighted that the Scottish Government had difficulties in tracking actual Covid-19 spending because its budget processes were not designed to separate specific spending in areas across portfolios. The Scottish Government has set out priorities which will rely on understanding spending and performance information across several portfolios, for example, tackling inequalities, and addressing climate change. The Scottish Government should consider the lessons learned from Covid-19 for such issues. Priorities that aim to address cross-cutting and deep-seated issues need financial processes that can easily identify and analyse relevant spending programmes across government.

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

In August 2021, the Intergovernmental Panel on Climate Change (IPCC) reported that there are record levels of greenhouse gases in the atmosphere. The public sector in Scotland has a key role to play in ensuring a pathway to net zero by 2045 and adapting to climate change. Public audit also has a part to play in this. To this end, Audit Scotland has recently published a report, Addressing Climate Change in Scotland, drawing together the key themes identified in the published recommendations for Scotland. This provides a high-level summary of the key improvements that need to be made across the public sector if Scotland is to reach its climate change ambitions of a just transition to net zero and adapting to improve resilience to the effects of the global warming we are already experiencing. There is further audit work planned in this important area.

Like all long-term outcomes, shorter-term pressures can inhibit progress if spending is drawn away from longer-term initiatives to address immediate and urgent need. I would recommend that Scottish Government continues to draw out progress between years and within its medium-term plans, alongside its annual carbon assessments of the Scottish budget.

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

Transparency in financial decision-making is essential to effective scrutiny. Maintaining fiscal transparency can be challenging, in particular where funding and spending is uncertain and changeable, and when achieving priorities relies on public sector organisations working together across Scotland.

The Scottish Government recognises many of these issues in its Scottish Exchequer Fiscal Transparency: Discovery Report. It gathered the views of fiscal data users as part of the report with the aim of improving the transparency of the information it publishes. The report found that:

- there are over 40 different regular financial outputs published by ten government departments or public bodies
- information on frontline spending and outcomes is fragmented and poorly signposted with poor linkages between budgets, actual spending and outcomes
- because of differing publication timescales, it is difficult to track decisions between documents
- published data is inconsistent with differing labels, levels of detail, and portfolio-naming conventions.

The Scottish Government plans to use the information gathered to improve how it presents and publishes existing financial information. This work is ongoing through its commitment to financial transparency in Scotland's Open Government action plan: 2021 to 2025. The ambitions set out in the discovery report will not be implemented until 2025, and we will monitor progress through our audits.

Both my report on the Scottish Government's consolidated accounts 2020/21 and my report on Covid-19 finances, I have reported that it can be unclear how spending announcements link to budgets and subsequent spending. In turn, better links are also needed between spending in portfolios and performance towards achieving national outcomes.

The RSR sets out a period of increased financial uncertainty and tighter public spending envelopes. This increases the importance of strengthening the reporting of these links, to ensure that efficiencies are met, and that public services are delivered effectively and economically.

Written Submission from the Chartered Institute of Taxation

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

Our response focuses on the part of the question dealing with taxation policy and, in particular, the maintenance of current taxation policies.

The Scottish Government has stated that it intends to use its tax powers to provide certainty and stability for taxpayers while raising revenues to support public services . Current policies include freezing rates of Scottish income tax (alongside increasing the starter and basic rate bands by inflation) and maintaining existing rates and bands of Land and Buildings Transaction Tax (LBTT). The Scottish Government has also recently reviewed Non-Domestic (Business) Rates via the Barclay Review of Business Rates and has committed, via its partnership agreement with the Scottish Green Party, to consider options for reforming Council Tax through deliberative engagement at a local level and through a citizens’ assembly.

The Scottish Parliament has the power to set rates and bands of income tax on non-savings, non-dividend income (i.e. income from a job, self-employed profits, pensions or rental income). The Scottish Government’s income tax policies mean that Scottish taxpayers with income of less than £27,850 per year currently pay less income tax compared to a taxpayer living elsewhere in the United Kingdom. However, the maximum saving to taxpayers of £21.62 may be seen as minimal in the context of the wider economic pressures that are being felt across the country.

Above this amount, Scottish taxpayers start to pay more income tax relative to taxpayers in the rest of the UK. The decision to freeze the Scottish higher rate threshold at £43,662 (as opposed to £50,270 in the rest of the UK) is likely to mean that more people are brought into the higher rate bracket as wages increase.

The ongoing (at the time of writing) UK Conservative Party leadership race may have longer-term implications for UK and devolved income tax policy. Not only have the two remaining candidates for leadership hinted at future cuts to the basic rate of UK income tax by as much as 4p, it is the policy of the current UK Government that the basic rate of income tax will be cut by 1p, to 19p, from 2024.

It is too early to know what the specific impact of this policy would be on Scotland, because we don't know exactly how the Scottish Government intends to respond. However, it is possible to speculate on what some of the implications might be. For example, a UK basic rate income tax cut would mean that no Scottish taxpayers would pay less income tax than their counterparts in the rest of the UK, undermining the Scottish Government position that its income tax policy ensures lower earners pay less tax than in other parts of the UK. In contrast, Scottish Ministers may feel more confident in their assertion that their income tax policy is 'fairer' and 'progressive', as a UK basic rate tax cut could be viewed as making the UK system less progressive.

Lastly, although there is little, if any, evidence that higher rates of tax have led to changes in taxpayer behaviour in Scotland, for example any exodus of higher rate payer payers from Scotland in order to reduce their tax bills, it is uncertain whether a more pronounced difference between Scottish and UK income tax rates would reduce Scotland's attractiveness to higher earners to come to Scotland from other parts of the UK.

The disparity between the Scottish and UK higher rate thresholds also continues to impact Scottish taxpayers in respect of National Insurance. The lower rate of National Insurance generally paid by higher rate taxpayers is linked to the UK higher rate threshold. As a result, this means that Scottish taxpayers are exposed to a marginal rate of tax (income tax and National Insurance) of 54.25% on the portion of their earned income that falls between the Scottish and UK higher rate income tax thresholds.

We understand that the Scottish Government intends to press for the devolution of National Insurance powers as a means of addressing this uniquely Scottish anomaly as part of the upcoming fiscal framework negotiations. While it is certainly true that devolution would allow this anomaly to be corrected and may even offer opportunities to look at more radical reforms, such as merging income tax and National Insurance, this is unlikely to be a straightforward exercise. Not only is it likely to take a considerable amount of time to resolve, it is also likely to create additional costs and complexities for businesses and employees. It is also not clear either whether the UK Government would be prepared to engage in such a discussion. The same could be said with regard to proposals for devolving powers over Capital Gains Tax (CGT). Despite the earned income tax brackets being devolved and set at lower rates, the NIC paid by Scottish workers and employers is governed by UK-wide thresholds. The higher rate of CGT (20% or 28% for residential properties) is likewise determined by UK income tax thresholds. Whilst having NIC and CGT brackets at higher thresholds set at UK level benefits some Scottish taxpayers, NIC and CGT, along with rates and bands of savings and dividend income, would seem obvious areas for further consideration of devolution alongside setting earned income tax brackets and rates to remove the disparities and inconsistencies. We draw particular attention to the issue of dividend taxation. The fact that this is set at UK level is a standing invitation to higher rate Scottish business income taxpayers to consider remaining within lower UK rates of taxation by incorporating their businesses and paying corporation and dividend tax, rather than paying Scottish earned income tax rates.

In respect of the other taxes in the Scottish Parliament’s control, there remain a number of areas of reform that we would like to see progressed over the course of the 2021-26 parliamentary session. Firstly, we would like to see the Scottish Government progress its ongoing review of the additional dwelling supplement for Land and Buildings Transaction Tax. There also remain issues to be resolved around the proposed devolution of Air Passenger Duty (APD). Plans to devolve and replace the tax with Air Departure Tax were put on hold in 2019 amid concerns around the tax exemption for flights departing Highlands and Islands airports, so UK APD continues to be applied on flights departing Scottish airports. Clarity on whether and when these issues may be resolved would be welcomed by those with an interest in the tax.

Despite efforts at reform, there has been very little change to council tax. We note the Scottish Government’s ambition to establish a working group to look at local government funding, culminating in a citizens’ assembly on council tax reform, but are concerned that this means substantive reform of the tax, long-promised and supported by parties across the Scottish Parliament, is unlikely to happen in the 2021-26 parliament.

For all changes to existing taxes, it is essential that adequate time and capacity is given to ensuring that proposals can be properly scrutinised and their impacts understood by taxpayers. That is why the CIOT and others have suggested that reforms could be undertaken to the way the Scottish Parliament scrutinises tax changes . We note a degree of cross-party support for the idea of a Scottish Finance Bill and would urge that the work of the Devolved Taxes Legislation Working Group, paused during the coronavirus pandemic, be reconvened in order to consider these matters further.

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

The Spending Review acknowledges the role played by the Scottish Government’s Framework for Tax in determining Scotland’s overall approach to tax policy making. Having a clear framework for taking forward tax policy allows for a more strategic approach to planning, managing and implementing devolved tax policy. This is to be applauded, however, given that the Framework was only published in December 2021, we are yet to see many practical changes to bring that intention into fruition.

We believe that the ambitions of the Framework for Tax to promote a more structured approach to tax policy should be accompanied by strengthened parliamentary oversight of taxation. That is why the CIOT, along with other organisations, have expressed support for an annual Scottish Finance Bill. Such an approach would provide Scotland with a practical avenue for carrying out tax changes. It is our view that the current processes do not offer a sufficient balance between the competing needs of speed, scrutiny and responsiveness. It should therefore be a priority for the work of the Devolved Taxes Legislation Working Group to be reconvened as soon as possible. The group was set up by the Scottish Parliament, Scottish Government and included stakeholders (including the CIOT) with an interest in tax legislation. An interim report was published in early-2020 before work was halted due to the coronavirus pandemic. We welcome the commitments made by the Public Finance Minister, Tom Arthur, to ensure the group is reconvened. This would allow options for alternative legislative processes for the devolved taxes – including consideration of a Scottish Finance Bill – to be considered.

Written Submission from the David Hume Institute

About the David Hume Institute

The David Hume Institute (DHI) is a think tank, established in 1985 to increase diversity of thought on the economy and society in Scotland. Central to our work are the people of Scotland, including those who are seldom heard; from different ethnic and cultural backgrounds; different genders, ages and abilities.

We apply the critical thinking which has long defined DHI to encourage action to address the contemporary issues of our time.

DHI welcomes the opportunity to respond to this consultation. Our response draws on a range of previous research.

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

- In order to meet the government's priorities of the National Performance Framework (NPF) including the legal duty to reduce child poverty, it will be essential to prioritise funding for social security and health and social care.

However, given the overall size of the government's spending envelope, choices about how and where to spend in these priority areas in order to maximise impact will be essential. Increasing the size of the envelope, for instance, through growing the tax base would help support the projected increasing costs due to an ageing population.

People in Scotland are indicating that pooling risk by maintaining effective public services is a goal that they support, even if personal taxation is slightly higher.[3]

- The Scottish Government's legal duty to reduce child poverty means by 2023-4 fewer than 18% of children should be living in relative poverty, with this reducing to less than 10% by 2030. For the period 2018-2021, the proportion of children in relative poverty after housing costs was 21% and with rising inflation and cost of living, meeting these targets is likely to become harder.[4]

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3 Towards a living Income August 2022 IPPR [Online]. Accessed 4/8/22.
4 Scottish Government. Poverty and Income Inequality in Scotland 2018-21. 2022. [Online]. Accessed 3/8/22.

- The multiple challenges facing the NHS, including growing waiting lists, staffing challenges, long waits at A&E and delayed hospital discharges, have significant impacts on people's lives. Prioritising health and social care spending to help meet the challenges whilst moving towards preventative spending is critical.

For example on cancer waiting times, in the first quarter of 2022, just 76.9% of patients started treatment within the 62-day standard compared to a target 95%.[5] Reducing waiting times is not a simple challenge of more doctors and nurses. There are crucial, often unseen roles such as radiotherapy medical physicists, where recruitment and retention has been significantly affected by Brexit.[6] This role is critical to the calculation and delivery of safe and accurate doses for each individual cancer treatment dose. The shortage of medical physicists is also affecting other areas where these roles are critical to safety and accuracy of diagnostic imaging equipment (X-Ray, CT, MRI, ultrasound); general medical devices (eg ECG, infusion pumps, defibrillators, blood pressure monitors); and nuclear medicine (eg PET scans, bone density scans and therapeutic treatments).

- Throughout our research with people across Scotland, housing comes up as a key priority from individuals and is critical to achieving NPF targets. When housing costs are taken into account relative poverty rates rise to 1 in 5 for the period 2018-2021.[7] With 1 in 7 (14%) households in Scotland living in the private rented sector, rising inflation and rent affordability is a growing area of concern for private tenants along with relative insecurity of tenure and quality.[8]

Better use of existing measures such as Rent Pressure Zones and Short-Term Let Control Areas, as well as innovative action in hotspots of second home ownership could help tackle rising housing costs and insecurity. Supporting local authorities' work in these areas would support the Scottish Government's NPF targets.

- Three other areas prioritised in the spending review are real term increases in funding for employability and training (up 67%), active and low carbon travel (up 47%) and concessionary fares and bus services (up 24%). With significant labour market challenges, and legal and moral duties to meet climate change targets this spending is likely to be necessary to help avoid further missed targets on the way to the 2045 deadline and transition to net zero.[9]

5 Public Health Scotland. Cancer waiting times. 2022. Online. Accessed 3/8/22.
6 Institute of Physics and Engineering in Medicine. Survey October 2021. Online. Accessed 4/8/22.
7 Scottish Government. Poverty and Income Inequality in Scotland 2018-21. 2022. Online. Accessed 3/8/22.
8 Scottish Government Private Sector Rent Statistics Scotland 2010-2021. 2022. Online. Accessed 3/8/22.
9 Institute for Fiscal Studies. IFS response to Scottish Resource Spending Review. 2022. Online. Accessed 3/8/22.

2. The Scottish Fiscal Commission (SFC) notes that Scottish income taxes have grown more slowly than the rest of the UK and is forecasting Scottish taxes to be around £360 million less in 2023-24 than they would be without income tax devolution. The SFC is also forecasting that, as a result of forecast error, the Scottish Budget in 2023-24 could be £221 million lower. How should the Scottish Government's Budget 2023-24 respond to this challenge?

- This question exemplifies the problems with calculating the size of the Scottish Budget envelope due to in-year adjustments. Following the publication of the Scottish Government's Medium Term Financial Strategy (MTFS) which includes the £221m figure in its 2023/24 budget, the figures have now changed. There is now a positive reconciliation of £50m in next year's budget.[10] However, with the external environment significantly changed, other assumptions such as those on pay awards and energy costs will be vastly underestimated, and likely changes in the tax regime from the UK Treasury means figures could well change again.

- Until more is known about the outcome of the review of the fiscal framework and Barnett formula it is not possible to know if a similar situation could also occur in future years. This makes it harder for the Scottish Government to commit to multi-year funding agreements.

- Any future changes in tax by the UK Government are likely to also affect future Scottish Government budget decisions. The assumptions in the Spending Review are based on Scottish income tax levels remaining unchanged. Despite the obvious significant political pressure to follow any rUK policy on tax cuts, there is little evidence that cutting income tax will either boost economic growth or significantly help those most in need during an ongoing period of inflation. Nor is there evidence of a great appetite for the government cutting taxes amongst the public in Scotland.[11]

  Calculations by the Institute of Fiscal Studies from announcements using the current fiscal framework and with no change to Scottish tax rates could produce Barnett consequentials and boost the Scottish budget by close to £500m per year by 2026/27.[12]

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10 Fraser of Allander Institute. Outturn Scottish income tax revenues 2020/21. 2022. [Online]. Accessed 2/8/22.

11 Scottish Government. Tax policy and the budget – a framework for tax: consultation analysis. 5. Annex B – Public Attitudes Data. 2021. [Online]. Accessed 3/8/22.

12 Institute for Fiscal Studies. IFS response to Scottish Resource Spending Review. 2022. [Online]. Accessed 3/8/22.

- There is an urgent need for the Scottish Government to reduce levels of 'inactivity' amongst the workforce, particularly amongst older workers and those who might be suffering from chronic illness and disability, including mental health problems. Working to remove barriers for those who want to work and supporting people in transitions between working and receiving benefits would have an effect across the Scottish Government's priorities.

If the 1 in 5 'inactive' people who want to work (174,700 people) were able to, then tax receipts could be boosted through both income tax take and National Insurance consequentials, and the budget increased via lower social security payments.[13] This could also help cut child poverty rates as the biggest risk factor for putting a child into poverty is to live in a household where no one is in paid work. The majority of economically inactive families in poverty in Scotland are permanently sick or disabled, and the relative poverty rate for children in households where someone is disabled is 30%.[14]

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

- The term 'cost of living crisis' implies the current conditions will be short-term. All evidence is pointing to a sustained period of inflation and tough economic conditions. This will undoubtedly affect Scottish Government spending as well as every person in Scotland.

- The most recent ONS data on earnings shows that private sector pay grew by 7.2% in March to May 2022, compared to just 1.5% for public sector pay.[15] If public sector pay becomes out of kilter with the private sector this will adversely affect recruitment and retention.

  We understand the Scottish Government's policy of using public sector pay awards to provide "extra protection to the very lowest paid" in line with their commitments to reduce child poverty,[16] however if continued long term this could risk devaluing more experienced public sector employees.

- The longer term challenges for the people of Scotland remain. Maintaining the essential focus on commitments to reducing child poverty and the transition to

13 Scottish Government. Scotland's Labour Market: People, Places and Regions - Statistics from the Annual Population Survey 2020/21. Section 5: Inactivity. 2021. Online. Accessed 4/8/22.
14 Scottish Government. Tackling child poverty - third year progress report : annex B - child poverty in families with a disabled adult or child. Online. Accessed 4/8/22.
15 Office for National Statistics. Average weekly earnings in Great Britain: July 2022. Online. Accessed 4/8/22.
16 Scottish Government. Public sector pay policy 2022 to 2023. 2021. Online. Accessed 3/8/22.

net zero is critical and will help ensure Scotland is more resilient to subsequent short-term challenges.

- Fully implementing the Scottish Government's 2021 benefit take-up strategy[17] should remain a priority. This helps support people to access funds they are entitled to which will be even more needed through the challenging financial times ahead. This includes £2.9 million of funding over three years to place welfare rights advisors in up to 150 GP surgeries in Scotland's most deprived areas, alongside an expansion of pilots providing advice in education settings.

- Prioritising spending on public transport will help to reduce carbon emissions and cut household fuel costs, which also helps with the cost of living. Initially expand the current scheme beyond over 60s, under 22s and disabled people to those on low incomes. This approach is being taken in other countries such as Spain and Germany, and many cities around the world. Working faster to integrate public transport systems, in the mould of the Cop26 travel smartcard will also help. A reduction in air pollution will also have significant public health benefits and long term savings.

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

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

- Digitalisation - is not a word used in the Resource Spending Review.[18] We are interpreting this question as meaning everything in the spending review related to digital transformation and digital public services rather than digitalisation which is the process of converting information into a digital format.

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17 Scottish Government Social Security (Scotland) Act 2018: benefit take-up strategy - October 2021 [Online]. Accessed 5/8/22.

18 Scottish Government 2022 Investing in Scotland's Future: Resource Spending Review [Online]. Accessed 5/8/22

Transformation to digital public services is essential for a modern Scotland, however not everyone is online or able to access services this way so alternative routes are also essential.

The Scottish Government's commitments to Open Data are essential to realising the benefits of digital public services. Our briefing paper indicates that over 95% of the data that could be open is still locked up, at an estimated annual cost to the Scottish economy of just over £2bn.[19]

- Reform and rationalisation of the whole public sector estate will be essential to meet budget challenges as well as to reap the benefits of digital transformation. However beyond public sector offices, critical infrastructure in communities such as community centres and libraries need to be prioritised due to their important contribution to social cohesion and should be considered preventative spending.

- Public procurement is already recognised as a strategic tool to help deliver on the national outcomes, but there is more that could be done to realise its full potential. The sustainable procurement duty[20] in the Procurement Reform (Scotland) Act 2014 is underutilised.[21]

The Scottish Government's Annual Procurement Report 2020-21 states that it manages national contracts and frameworks through which public bodies and the Scottish Government spent more than £1 billion during the year.[22] NHS National Services Scotland states they manage over £1.4billion worth of contracts. These are just two large examples, so the total procurement spending will be significantly higher.[23]

The Scottish Government report shows progress is being made on including some social criteria within contracts. For example 92% of suppliers pay the living wage but given the size of the total budget, creating "146 brand-new new jobs, 27 apprenticeships, 31 work placements and 453 qualifications" seems very low. The report also states "We awarded 21 new contracts with community benefits incorporated. This brings the total number of live contracts with community benefits to 62".[24] This is just 0.6% of the total contracts awarded in 2020/1.

The Scottish Government is piloting community wealth building approaches by looking at public procurement within some places but there is still greater potential for using procurement as a tool to drive change. The requirements and criteria used to assess bids have a huge impact on the value from these

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19 David Hume Institute. What is open data and why does it matter? 2021. [Online]. Accessed 3/8/22.
20 Sustainable Procurement Duty [Online]. Accessed 5/8/22.
21 Supplier Development Programme. Online. Accessed 16/3/22.
22 Scottish Government (2022) Annual Procurement Report 2020-21 Online. Accessed 14/3/22.
23 NHS National Services Scotland Online. Accessed 14/3/22.
24 Scottish Government (2022) Annual Procurement Report 2020-21 Online. Accessed 14/3/22.

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

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

The Climate Change Committee's 2021 report to the Scottish Parliament found that "Progress in delivering adaptation has stalled. Available evidence indicates that across most sectors progress in delivering adaptation has stagnated, although there are a limited number of areas where good progress is being made".[25]

However we are mindful that the Scottish Government is not in control of all the elements within the net zero plan. A key element of the net zero transition calculations is the Acorn Carbon Capture and Storage (CCS) Project. This was in jeopardy last year due to the decision of the UK Government not to award funding to the project. This follows a similar decision in 2011 regarding a previous CCS project in Fife which also utilised existing infrastructure and would have meant that Scotland, and the UK, led the world in the development of this technology. The Scottish Government announced funding for the project in January 2022 which shows commitment to developing the technology but recognises that greater levels of co-investment and greater certainty for investment are critical to meet net zero targets.[26]

Previously, EU funding also contributed to projects that would reduce emissions across Scotland. The replacement funding from the UK Government has very different priorities. This means there is even more pressure on the Scottish Government to ensure it maximises the impact of its spending to achieve net zero and to realise the potential economic gains.[27]

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25 Climate Change Committee. Progress reducing emissions in Scotland – 2021 Report to Parliament. 2021. Online. Accessed 3/8/22.
26 The Press and Journal, Scottish Government £80m for North East Acorn. 14/1/22 Online. Accessed 5/8/22.
27 Scottish Government 2021 The economic impact of decarbonising heating in Scotland Online. Accessed 5/8/22.

Written Submission from COSLA / SOLACE / CIPFA Directors of Finance Section

Finance and Public Administration Committee – Pre-Budget Scrutiny 2023-24: COSLA, SOLACE and Directors of Finance Section Response

***COSLA** is a Councillor-led, cross-party organisation which champions Councils' vital work to secure the resources and powers they need, representing all 32 Councils in Scotland. COSLA works on Councils' behalf to focus on the challenges and opportunities they face, and to engage positively with Governments and others on policy, funding and legislation. We're here to help councils build better and more equal local communities. To do that we want to empower local decision making and enable Councils to do what works locally.*

***SOLACE** is the Society of Local Authority Chief Executives. SOLACE's membership includes all 32 local authority Chief Executives in Scotland, each responsible for leading multi-million pound organisations and thousands of employees, providing a huge range of essential services to the entirety of Scotland's population.*

*CIPFA **Directors of Finance Section** works closely with COSLA in leading strategic discussions with the Scottish Government around funding and distribution for the essential services and policy areas that Councils deliver on. Members of the Section are those who have responsibility for the overall financial functions across all 32 Local Authorities.*

Introduction

1. COSLA, SOLACE and Directors of Finance Section are pleased to present a joint response to the Finance and Public Administration Committee's call for views on Scotland's public finances in 2023-24 and the impact of the cost of living and public service reform, as part of its pre-budget scrutiny.

2. We note that the Committee is particularly interested in views on how the rising cost of living will impact on the Scottish budget in 2023-24 and whether the Scottish Government's proposals for reforming the public service will deliver the efficiencies expected. Our response therefore seeks to address these points from a Local Government perspective.

3. We previously submitted a joint written response (which was followed by oral evidence) as part of the Committee's 2022-23 pre-budget scrutiny on the impact of COVID-19 on Scotland's public finances.

4. Much of what we said then still stands, particularly the need for fair funding for Local Government with Councils able to target spending to respond to local needs, and for whole-system thinking that recognises the key social determinants of health and wellbeing – education, housing and employment.

5. However, the subsequent Resource Spending Review (see Annex One, p22) indicates that there will be no increase to Local Government's core funding in the next 3 years. Especially in the context of soaring inflation and energy costs, this will mean fewer jobs and cuts to services that are fundamental to delivering on the Scottish Government's own priorities. These concerns are emphasised in our response below.

Summary of Key Points in the Submission

6. Local Government is the crucial partner in addressing all four of the Scottish Government's Resource Spending Review priorities – tackling child poverty; addressing the climate crisis; strengthening the public sector following the pandemic; and growing a stronger; fairer and greener economy. It is therefore essential that funding for Local Government is fair, sustainable and flexible – without this, delivering on those priorities will be impossible.

7. Prioritising funding for health and social care and social security does not resolve the underlying causes of poor health and wellbeing. Whole-system thinking is needed to prevent problems rather than focusing spend on responding to them. Education, housing, employment are all key social determinants of health and wellbeing, and must be invested in to improve health outcomes and improve health inequality.

8. It is also not clear how the approach of prioritising health and social care and social security aligns with the four overarching priorities set out in the Resource Spending Review. This choice also appears to have been made with no evaluation of the impact it will have on other areas.

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

10. The 7% real-terms reduction in core funding for Local Government will mean that, by 2026-27, there will be £743m less in real terms to spend on frontline services that matter most to communities – equivalent to 20,000 fewer Local Government jobs. This is around 10% of the current workforce.

11. Single-year budgets for Local Government restrict the ability of Councils to plan and invest in dealing with long-term systemic challenges around poverty and inequality, wellbeing, climate change, and the economic recovery following the pandemic. Multi-year settlements are required to tackle these issues effectively and maximise the positive impact of public spending, with a focus on broader outcomes rather than narrow inputs and outputs.

12. The Scottish Government's expectation that public bodies will deliver 3% recurring annual efficiencies during the RSR period fails to acknowledge that Local Government has already achieved significant efficiencies, through reform, rationalisation (including of the public sector estate), innovation and transformation, in response to substantial real-terms reductions in core funding over the past decade; any 'easy' savings have been made, and further reductions will have a major impact on services.

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

Q1. The Scottish Government's Resource Spending Review assumes that the current taxation policies are maintained while funding for health and social care and social security is prioritised. Are these the right priorities and approach for the Scottish Budget 2023-24 and until 2026-27?

Whole-system thinking is needed to support Living Well Locally

14. It is not immediately clear how the 'prioritisation' of spending on health and social care and social security links with the four overarching policy priorities in the Resource Spending Review (RSR) – tackling child poverty; addressing the climate crisis; securing a stronger, fairer, greener economy; and delivering excellent public services. By prioritising these two specific areas, the Scottish Government is choosing to continue to direct funding 'downstream', at addressing problems, rather than 'upstream' in services that help prevent those problems occurring. This choice appears to have been made with no evaluation of the impact it will have on other areas. Annex One to this document sets out the many ways in which Local Government contributes to the RSR priorities.

15. Simply putting more resource into health is not the answer – recent analysis of the National Performance Framework (NPF) outcomes shows that key indicators such as healthy life expectancy (illustrated below), drug and alcohol use and premature mortality are not improving, and several official measures of health inequality are worsening.

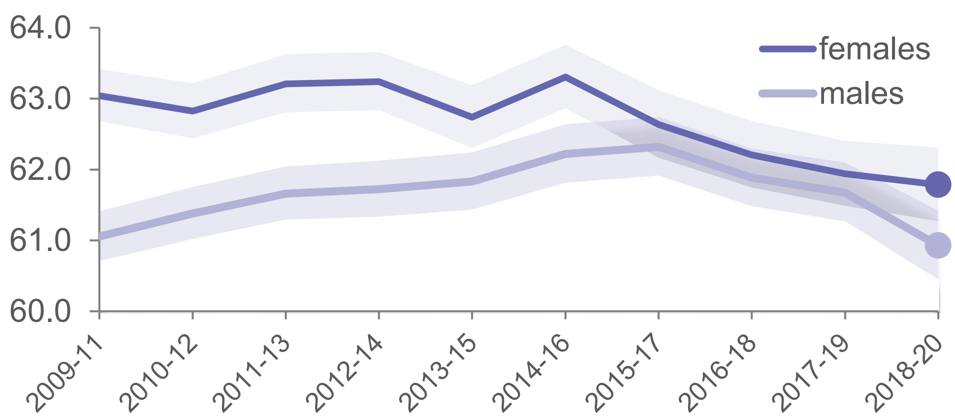

Figure 1: Healthy life expectancy at birth in Scotland, 2009-11 to 2018-20

16. There needs to be whole system thinking about health and wellbeing across the public sector, with greater investment upstream to reduce demand rather than just increasing funding for the NHS; prevention is key. The main social determinants of health – education, housing, employment – are all long-term drivers which must be invested in to improve health outcomes and address health inequality.

17. The RSR fails to recognise this need to focus on upstream investment, instead proposing real terms cuts to the areas that can prevent more costly downstream intervention – in other words, 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. Ten years on from the Christie Commission, we are not seeing the necessary changes in the focus of resource spending.

18. However, funding to address this must be sustainable and not at the expense of core Local Government funding. Local Government services – like housing, education, childcare, employability, and leisure and culture – play a significant role in preventing poor health outcomes and reducing demand for healthcare services, as well as supporting people into employment and helping to reduce dependence on the welfare system. For example, there is clear evidence that disinvestment in Local Government leads to adverse trends in healthy life expectancy, resulting in people needing increased care and support from an earlier age.

19. In addition to the three priorities set out in the RSR Framework, COSLA believes it is critical to reflect on the importance of improving the wellbeing of individuals and communities, which in turn will have significant physical, mental and economic benefits. For that reason, it is COSLA’s view that an additional priority – “to ensure that everyone can live well locally” – should have been incorporated within the RSR, underpinning and linking the other priorities and reflecting the importance of improving the wellbeing of individuals and communities.

20. Without a priority that is focused on the communities in which children grow up, in which local action can be taken on climate change, and in which businesses can thrive, public spending will continue to paper over the cracks. Without a focus on creating vibrant and supportive communities, our public services will continue to plough money into addressing complex and resource-intensive problems that mean poorer outcomes for individuals. Put simply, resource spending that is focused on supporting people to live well locally is cost-effective and aligns with Christie Commission principles.

Impact of flat-cash local government settlement on communities

21. Local Government is the crucial partner in addressing all four of the RSR's overarching priorities, and it is essential that funding for Local Government is fair, sustainable and flexible – otherwise, delivering on those priorities will be impossible.

22. Whilst the RSR presents a flat cash position for Local Government, similar to other non-health portfolios, critically there will be no additional core funding for Local Government in the next three years which represents a 7% cut in real terms over that period. This marks a continuation of the severe funding pressure faced by Local Government for at least the past decade, with the core revenue settlement having seen a real terms reduction of 15.2% since 2013/14 (when specific grants and funding from other portfolios is excluded). During this period, the proportion of the Scottish Government budget going to Local Government has fallen from 34% to 28%, while health spending increased from 36% to account for around 41%.

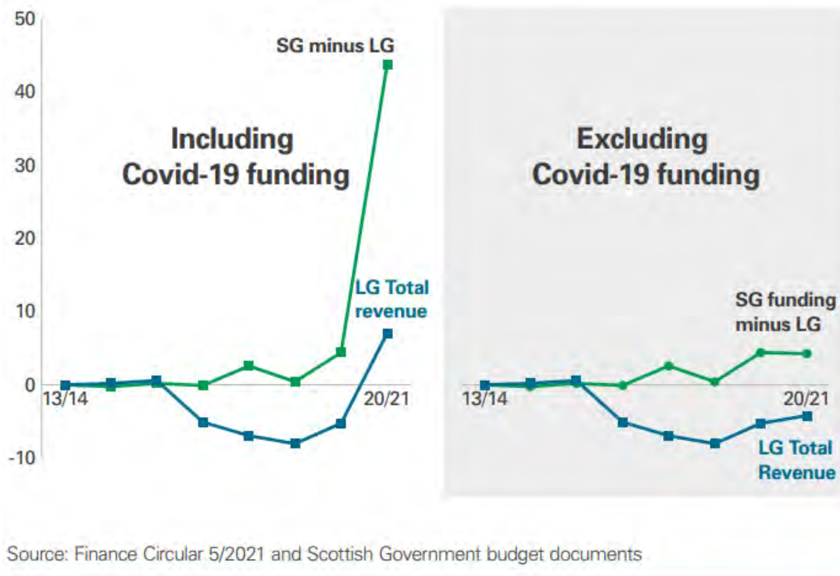

Figure 2: Comparison of real-terms changes in revenue funding in local government and other Scottish Government areas (including and excluding Covid-19 funding)

Source: Accounts Commission 'Local Government in Scotland Overview 2022', data from Scottish Government

23. This change has eroded the critical role and potential for prevention that Local Government can offer, whilst focusing spending on largely reactive services and failing to deal with the root causes of the challenge. Increasingly directed funding and pressure on core budgets mean that councils have limited flexibility to make decisions about local spend to ensure best use of resources based on local needs and priorities. The further 7% cut to Local Government provided for by the RSR will mean that, by 2026-27, there will be £743m less in real terms to spend on the frontline services that matter most to communities – equivalent to 20,000 fewer Local Government jobs. This is roughly 10% of the workforce.

24. Increasing policy direction from the Scottish Government since around 2018/19 has seen Local Government net revenue expenditure increase in some areas, at the expense of others. This erosion of councils' core funding results in a reducing ability to invest in preventative work, taking us further away from key priorities such as tackling child poverty. Historically the core settlement has been added to over the years for numerous policy priorities that Local Government has been asked to deliver (for example 600 hours of Early Learning and Childcare, period products, teacher numbers).

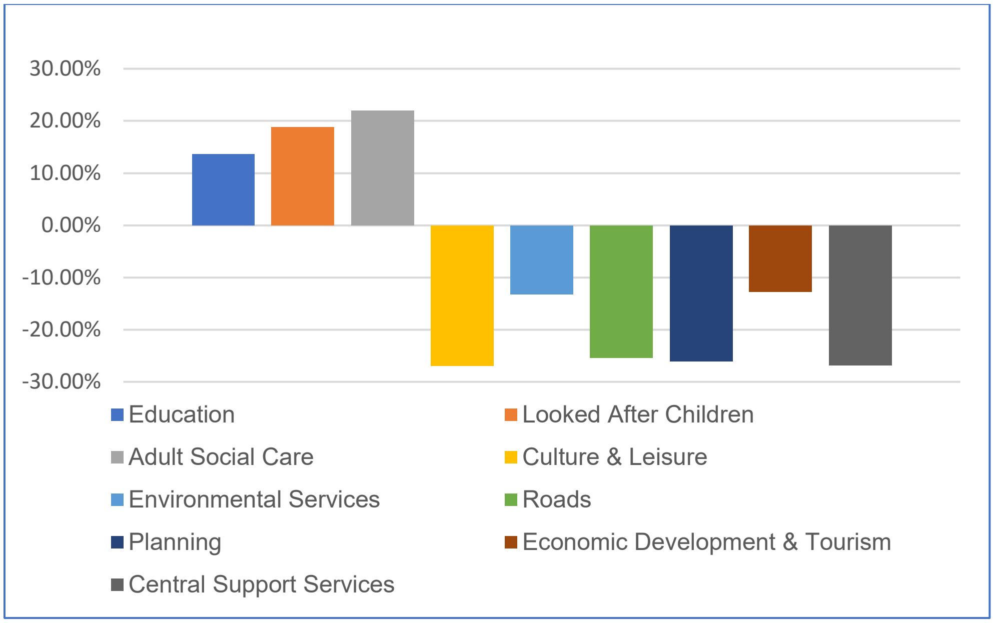

Figure 3: % Change in Real Term Revenue Expenditure 2010/11-2020/21 By Local Government Service Area

Source: Improvement Service National Benchmarking Overview Report 2020/21 (p19)

25. In addition, where costs rise for policy-specific funding, the core is plundered to meet the gap. This means core funding is constantly being squeezed and as a result, real terms cuts fall disproportionately on services that do not have a statutory basis but do have a tangible impact on people's quality of life (waste, roads, parks, sports facilities, youth work, etc), and councils are restricted in being able to make decisions informed by local need and priorities.

26. A good example of this effect is the policy for Early Learning and Childcare. Expansion funding from 600 hours to 1140 hours is a new policy focus which should take account of the current funding requirement, however the first 600 hours element of the policy effectively sits in Local Government's core budget. The fact that both uptake and costs have increased for this element has been largely ignored, at the expense of focussing on the expansion element. Councils must then find funding to meet the increased costs from the rest of its core budget.

27. This pressure on core budgets is becoming increasingly visible and leads to Councils making difficult choices. Of the many ways in which Local Government contributes to the priorities of the RSR listed in Annex One to this document, non-directed elements only account for a third of local spend, and this one third is constantly being squeezed. Of all the services listed in the Annex, there is very little that councils can stop doing.

28. Commitments to health and social care and social security also risk being undermined by a lack of focus on affordable housing. Affordable housing is a crucial determinant of health and welfare. Secure, safe, and affordable social housing can improve health, reduce child poverty, and improve energy efficiency. However, due to the Scottish Government's continued commitment to a differential in benchmarks between Local Government and Registered Social Landlords, local authorities face increased financial barriers to rolling out greater numbers of affordable housing. While these barriers remain, plans to meet health and social care and social security targets may ultimately fall short.

Q2. The Scottish Fiscal Commission (SFC) notes that Scottish income taxes have grown more slowly than the rest of the UK and is forecasting Scottish taxes to be around £360 million less in 2023-24 than they would be without income tax devolution. The SFC is also forecasting that, as a result of forecast error, the Scottish Budget in 2023-24 could be £221 million lower. How should the Scottish Government's Budget 2023-24 respond to this challenge?

29. The devolution of tax powers to the Scottish Parliament has introduced a higher level of risk and uncertainty around the assumptions required to deliver a Budget. The nature of the current UK Fiscal Framework, by which the Scottish block grant is adjusted for the retention of devolved taxes in Scotland, means that these risks can only remain at a Scottish Government level. For Scotland to benefit from additional tax revenues, the Scottish economy has to grow faster relative to the rest of the UK. This seems intrinsically unfair that any steps taken to generate additional revenue through devolved taxation effectively leads to a resultant reduction in block grant.

30. The priorities set out by the Scottish Government in the RSR suggest that economic growth is a lower priority than spending on the NHS. However, by not promoting the economy this will continue to have a cost in the block grant adjustment, so long as the rest of the UK continues to outpace Scotland. A weak economy is in itself a driver of public spending – tax revenues needed to pay for public services and to address outcomes will not be generated. There needs to be an increased focus on investment in supporting the growth of local economies, to deliver a better outcome from the existing fiscal framework.

31. Local Government plays a key role in driving economic transformation and improvement. The development of a fair, greener, stronger economy, which Local Government can be at the heart of, is a driver of potential spending power. By growing local economies and creating jobs, reliance on public services can actually be reduced, with significant health and wellbeing benefits, as people are empowered by work.

32. It is difficult for Local Government to comment more widely on whether a change in taxation policy should be one of the responses to addressing the budget challenge, other than to suggest that the Scottish Government must continue to engage with the UK Government on the need for long-term solutions. The response below on what the Scottish Government should be doing to address the budget challenge is therefore focused on how the Scottish Government can respond in other ways, rather than taxation.

If there is less money available, reduce policy demands – don't add to them

33. There needs to be frank discussions across the public sector around what can and should be delivered, and what needs to be deprioritised or changed going forward. It is likely that there are a number of activities across the public sector that are outdated or due to legislation written decades ago and may no longer be as relevant to need in our communities. Account needs to be taken over the impact of policy decisions already made and whether these can continue as priorities to the same extent.

34. There is a need to stop or change some things that are currently delivered from a national perspective, where they aren't required locally.

35. The Scottish Government also cannot keep adding to policy commitments without sustainable funding being available. Over the last year alone there have been multiple policy funding announcements which Local Government is required to deliver in addition to its existing statutory and core services (including previous policy areas such as the Early Learning and Childcare Expansion as we refer to earlier in our submission). Examples range from the continuation of expansion of free school meals, place-based and town centre funding, removal of instrumental tuition fees, electric vehicles infrastructure, playpark renewal.

36. Whilst such policy areas undoubtedly have their merits, there is little or no discussion on whether they are the best priorities with limited resources, which best achieve outcomes, and fundamentally they do not address Local Government's core funding pressure. Either sustainable funding must be provided both for existing policy commitments delivered by Local Government in addition to core services, or there needs to be a wholesale re-prioritisation of policy areas, as these cannot simply be added to with the expectation that Councils will fill the gaps.

Invest 'upstream' in social determinants of health and wellbeing

37. As we highlight in question one, there is a need to invest upstream in prevention and early intervention. The Scottish Budget for 2023/24, needs to focus far greater attention on activities which promote wellbeing in communities, reduce social isolation, encourage healthier lifestyles and physical activity for children and promote

mental health both for children and adults. This is clearly not a one-year budget solution, as the outcomes will play out over many years. However, the process of developing more joined up interventions and a greater recognition of the role that Local Government can play in providing preventative services which promote wellbeing needs to commence now.

Invest in people to support the Economy

38. The Scottish Budget for 2023/24 should equally focus on investing in growing local economies and creating jobs, so that reliance on public services can be reduced and additional tax revenue can be raised. This also creates significant health and wellbeing benefits, as people are empowered by work and enabled to live well locally. Councils are major employers in themselves and also play a key role in terms of local economies, commissioning and procuring services, creating jobs and providing employability services to support people into work.. Greater collaboration is needed in the governance around Scotland's National Strategy for Economic Transformation (NSET), which better aligns priorities and budgets across the Scottish Government and agencies, so that Local Government can work more easily alongside its partners, to focus more clearly on the economic outcomes we are trying to achieve collectively, with less siloed decision making.

Provide multi-year settlements to enable long-term planning and investment

39. Multi-year settlements are required to maximise the positive impact of public spending; resourcing on an annual basis is not a best value approach. Single-year budgets do not enable effective planning for systemic challenges such as tackling inequalities which require multi-year investment funding to unlock the necessary strategic response. Resourcing on an annual basis inhibits effective service design, has negative impacts on recruiting and retaining people with the necessary skills, and hinders procurement activity which leads to stop-start service delivery. This was recognised by the Accounts Commission in their Local Government in Scotland Overview 2022:

> *"The ongoing absence of a multi-year financial settlement creates uncertainty for councils at a time when effective and robust financial management is crucial.*
>
> *"The Scottish Government continues to fund councils on an annual basis. This makes it challenging for councils to plan and budget effectively for the medium and longer term, and work with partners to develop long-term plans to deliver better outcomes and address inequalities."*

Empower Local Government with additional tax/revenue raising powers to support investment in communities.

40. The question is not only about the Scottish Government's ability to raise tax revenues. Local Government should equally be empowered to raise revenue locally for reinvestment in local services which benefit individuals and communities. From a human rights budgeting perspective, there is a duty to increase resources to achieve the further realisation of rights. There are a number of options for revenue raising that Local Government could be empowered to use and Scottish Government should additionally work to establish a fiscal framework which enables Local Government to invest in their communities and services, thereby improving outcomes and supporting the progressive realisation of rights. This could include utilising Local Government powers to set planning and building control fees locally, ensuring full cost recovery, or the power to introduce a "tourist tax" if deemed locally appropriate. This particular option has been used successfully in other countries, and only impacts on those who are able to pay.

41. Additionally, Scottish Government should urgently work with COSLA and Local Government on the reform of Council Tax. It is disappointing that this work has been effectively on pause since the Covid pandemic, as there has been significant work already in this area and it should be taken forward as a matter of urgency. While this may not result in increased revenue for Local Government, it can be taken as opportunity to ensure that the revenue generated is non-regressive and does not adversely impact the realisation of rights nor contribute to inequality within our society.

Q3. How should the Scottish Government respond to inflationary pressures and the cost of living crisis in its Budget 2023-24?

Recognise the impact of inflation on public sector budgets

42. Inflation is having a significant impact across Scotland at both an organisational and an individual level. Local Government is no exception and is facing major knock-on impacts on services – for instance through increased energy costs across the Council estate including schools and care homes estimated at £100m for 22/23; increased cost of Free School Meals due to rising food costs; and increased costs of commissioned services and capital projects driven by rising prices for materials as well as soaring energy bills and the prospect of substantial pay increases. This impacts on services which are commissioned from the third and independent sector as well as those provided directly for example fuel costs for school transport providers, energy costs for care homes and ELC settings.

43. Adding to the burden that Councils have to bear through new policies is important here too. Each year, unfunded inflationary and demand pressures mean that the

core has to be taken from – this has happened across a multitude of policy areas. If the Scottish Government commits to delivering a policy, then there must be sustainable funding provided for this, factoring in inflation – otherwise the core will continue to be squeezed. Local Government has managed to deliver budgets with cuts to funding in times of low inflation. Councils are operating in a different climate now and if there is no money for inflation the Scottish Government needs to revisit policy priorities, or we will have system failure. Whilst Councils have been able to prudently utilise reserves at times of cost pressure, which can temporarily act as a buffer for inflation in year, use of reserves is a one off and not a sustainable solution.

44. As an example, Councils currently spend around £86m on food annually, mostly for school meals and in care settings, which is expected to increase by at least 5% over this year – that's just over £4m. Without inflationary uplifts on the core settlement, this means that the funding originally provided for policy delivery such as free school meal commitments, and locked into the settlement, no longer reflects the actual cost of delivery. This is one of the key contributors to the pressure on core budgets and leads to cuts in services and inability to invest in improving outcomes.

45. Councils are seeing significant inflationary pressures in capital projects – most reporting increases of c.30% on anticipated costs. This is leading to many Councils reconsidering their capital plans. The result of fewer capital projects being taken forward will have impacts on communities as the quality of infrastructure is affected. In turn this will impact on economic recovery as Councils are unable to procure for capital construction to the same extent. This also creates impacts on revenue spending if existing assets are not replaced or improved upon and higher maintenance costs then arise to keep assets working.

Social security is not a solution to squeezed household budgets

46. There needs to be whole system discussions across the public sector to identify ways of supporting people and families on low income, as costs of living continue to rise. Similar to the impact of the pandemic, those on lower incomes and who were already experiencing disadvantage are being disproportionately affected and we need to ensure safeguarding measures for these people and families.

47. The Local Government workforce includes many who undertake a range of front-line roles including cleaning and catering. Although councils are proud to be Living Wage employers, it must be recognised that the burden of austerity has fallen most heavily on those doing those vital, but less well-paid, roles. For example, based on a % of overall FTE, over the course of a 37 hour week, approximately 52% of the Local Government workforce currently receive hourly rates which amount to less than £25,000 annually. However, the continued downward pressure on core budgets restricts the pay award that can be given. Local Government requires fair and sustainable funding to allow investment in our workforce. The flat cash settlement gives no scope for this. Any increase in welfare payments to mitigate the cost-of-

living crisis fails to recognise that staff shouldn't have to depend on such payments to make ends meet.

48. In March 2022, Energy Action Scotland estimated that 38% of households across Scotland would be in fuel poverty following the April 2022 energy price rise, with 12 council areas seeing more than two fifths of households spending more than 10% of their income on energy. Eilean Siar was forecast to be the worst affected area with an estimated 57% of households expected to be living in fuel poverty. This is set to get worse following the increase in the energy price cap in October 2022. This will lead to increased pressure on Local Government services as households require greater support and experience greater financial insecurity.

49. Councils are expecting to experience further increases in demand for support to households throughout the year. The pandemic response through 2020 and 2021 increased Crisis Grant applications to the Scottish Welfare Fund and whilst the subsequent recovery period saw this demand level off slightly, it remains higher than pre-pandemic levels and is likely to increase again in 2022/23 as and when the impact of the cost-of-living crisis becomes more apparent.

Avoid the cycle of inflation driven by direct payments

50. There is a risk that if the response is only to make direct payments to households to support them the root cause of inflation is not addressed and an inflationary cycle is created which perpetuates the problem.

Q4. The Spending Review identifies key areas of reform over the lifetime of the Parliament to support its priorities in the Spending Review, including delivering efficiency savings across the public sector. How should the Scottish Government approach each of these areas to achieve efficiencies while also maintaining effective public services?

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

Learn lessons from the efficiencies Local Government has made over the last decade

51. The RSR "invites local authorities to adopt a complementary approach" to reform. Local Government has been managing significant real terms reductions in core funding over the last ten years which has already driven ongoing reform, rationalisation, innovation and transformation work across local authorities, across workforce, digital property and procurement.

52. Local Government does already seek to be efficient and has always been able to demonstrate efficiencies, for example a commitment to shared services and seeking efficiencies through procurement contracts with Scotland Excel. The Local Government estate is regularly considered and over the last decade we have seen an increase in co-located services, including with other public sector organisations. For example, in Glasgow a number of public services are co-located within Kelvin Hall.

53. However, to achieve further innovation, including wider adoption of shared services and closer partnership working with stakeholders, we believe that Local Government requires greater resources and more effective relationships. In particular, we believe a return to the ethos of the Christie Commission is critical to this aim. However, progress on the Commission's four pillars has been beset by a number of factors, including:

    - Inconsistent collaboration across sectors;
    - Limited evidence of the 'radical shift towards preventative spending';
    - An increase in the number of policies and service delivery expectations set centrally;
    - The exacerbation of funding challenges facing the public sector, including the significant budgetary pressures facing local authorities.

54. Overcoming these barriers should be a key aim of the Scottish Government in the upcoming years. In doing so, we believe that more effective structures will emerge, with a greater focus on preventative and wellbeing services, and which grow the economy and tackle climate change.

Utilise and invest in digital

55. There are a number of opportunities for digital technology to be used to improve service delivery and ensure effective use of resources at the same time as reducing the carbon footprint of health and social care provision. But in all cases sufficient funding is required to enable local authorities to make the investment required to achieve these benefits. This requires adequate connectivity, which is not currently universal, especially in remote and rural locations.

56. Examples of opportunities that have begun to be realised but which require proper funding to maximise the benefits include:

- Rolling out the equipment and connectivity required for high-quality, reliable and effective video calling as part of the delivery of some services. Though it won't be appropriate in all cases, the increased use of this technology necessitated by the pandemic has helped some service users and staff to be more familiar and comfortable with this method of contact, which could be offered as an option where a specialist intervention is not required, to reduce costs such as travel.

- Shifting from legacy IT systems to cloud-based technology will help to reduce duplication (and therefore the volume of data stored and the associated carbon footprint), facilitate greater sharing of information and enable more effective remote collaboration between staff in different locations.

- The switch from analogue to digital in telecare which has huge potential to enable remote monitoring of the health of people receiving care at home including those with long-term conditions, reducing the frequency and improving effectiveness of call-outs, making the service more responsive rather than reactive.

57. Many of these and other digital enhancements require investment up-front to realise much greater benefits in subsequent years, but this forward-planning approach is greatly hindered by single-year budgets and other uncertainties regarding budget allocations. A longer-term view, including multi-year settlements, is essential to allow local authorities and the wider public sector to realise benefits from digitalisation.

Avoid costly, time-consuming, disruptive structural reform

58. The primary concern for Local Government is that individuals and communities get the services they need at the right time regardless of where they live and of their individual circumstances. The Local Government workforce has played a vital role serving their communities in extremely challenging circumstances, and supporting the whole of this workforce as we move out of the pandemic is a key priority.

59. The planned creation of a National Care Service (NCS) has a potential destabilising effect on the current services and the workforce, creating uncertainty and impacting on the ability to recruit and retain staff at a time when this is already extremely challenging. This destabilisation will potentially have an impact on the ability of communities and individuals to access critical services.

60. There is also a lack of clarity as to how the NCS will be financed, with considerable uncertainty on how the proposals will impact on local authority budgets and no account being taken of existing policy commitments in relation to social care which have significant cost implications. The Financial Memorandum to the NCS Bill shows

that the establishment of the NCS national body alone will cost up to £250 million – equivalent to a significant proportion of the planned £840 million increase in social care investment during this Parliament; money which should be spent on service improvements, not structural reform.

61. And it is far from certain that the creation of the NCS will achieve the intended aims, or that the mass transfer of functions, staff, property and liabilities from Local Government to Ministers will result in better outcomes that works for communities or the workforce. As the Accounts Commission states in its Local Government Overview 2022:

> *Such a significant programme of reform brings challenges and risks. Reform in other areas of the public sector has shown that expected benefits are not always clearly defined, and even when they are, they are not always delivered. Focusing on such a major transformation also risks a diversion from tackling immediate challenges in the social care sector.*

62. The proposed NCS is a clear example of structural reform of the public sector that is likely only to divert attention and resources away from addressing the challenges currently being faced in the delivery of services, with no clarity on how it will be funded, how it will benefit communities or how and when it will be more efficient than current structures.

Revenue-raising – allow more, and avoid policies removing revenue sources

63. Local Government needs to be empowered to raise revenue to fund and invest in local services and infrastructure, improving outcomes and supporting the realisation of rights. We have set out examples of local revenue raising in our answer to question 2, the key to this being that the flexibility needs to be there to enable Local Government to work with or without the Scottish Government to explore innovative revenue raising opportunities and to use fiscal powers locally to address ambitions such as net zero.

64. Local Authorities have a range of financial levers which are not open to the Scottish Government, but for these to work properly requires Councils to have sufficient revenue to sustain borrowing. We can foresee the need for new ways of funding projects, from the public sector (for example, Green Growth Accelerator) but also the private sector. However, for Councils to access private capital requires a considerable investment of staff time, which must happen without the guarantee that it will pay off.

65. Councils equally need flexible funding to develop plans and programmes and to de-risk potential investment programmes. A lack of flexible funding will stifle innovation as Councils won't have either the capacity in house to pursue riskier and more

cutting-edge projects and won't have the ability to buy it on the marketplace either. As we explain later in this submission statutory mitigation for Capital Accounting is important in giving Councils greater flexibility. It is questionable to push hard on efficiencies and at same time look to minimise level of statutory mitigation. A poorer Local Government is ill equipped for the fast-changing world we are entering which makes successful delivery of climate change targets all the less likely.

Q5. How effective do you think these reforms will be in delivering efficiency savings in the Scottish Budget 2023-24, and beyond? If you have additional or alternative priorities for achieving efficiencies (for example within your public sector area), please provide details.

Risk of overestimating the efficiencies that can still be made

66. Local Government can and is looking at ways of working to be more efficient. However, the challenge is to do more efficiencies without impacting on service delivery. Local Government has borne the brunt of funding pressure and has been responding by making efficiency savings for more than a decade, but the cracks are starting to show. As shown in figure 3, spend on central services has reduced by more than 25% in real terms, cutting all back-office functions to the absolute minimum for delivery and at a time where there has been continual need for investment in some back-office functions such as IT due to changes in technology and subsequently service delivery. Any suggestion that this funding gap can be met by Local Government through further efficiencies is false – any 'easy' savings have already been made, and services will continue to have to be cut if the erosion of core funding continues.

67. Efficiencies can be focussed as much on improving services as achieving savings and doing better services may not necessarily save money. There needs to be a far greater focus on taking demand out of system which necessitates costly services to respond to the symptoms rather than the cause. However, this requires investment. The ability to deliver more efficient services which could, in turn, deliver savings depends very much on Local Government's ability to invest in infrastructure, without the constrictions to flexibility which may further be limited by the outcome of the capital accounting review in the future. For instance, to improve the energy efficiency of vehicle fleets needs capital investment in the infrastructure to support this.

Further efficiencies will impact on services and outcomes

68. As around 60-70% of Local Government's budget is for workforce costs, the real terms pressure on core funding means councils are faced with tough choices – reducing or cutting services, closures with impacts within communities, job losses, or

losing highly trained and well-developed staff to other sectors. Any additional 1% pay rise (over and above what councils have been able to budget for) could mean cuts of around 2,100 jobs across the Local Government workforce. That not only reduces the level of essential services that can be delivered, but it increases the pressure and demand on those left behind and means potentially a significant loss of experience and knowledge from the workforce.

69. The suggestion in the RSR that efficiencies can be delivered by reducing public sector headcount to pre-pandemic levels fails, in the case of Local Government, to recognise why headcount has increased. Between 2006 and 2013 there was a stead reduction in the Local Government workforce due to significant efficiency saving exercises. By the time Police and Fire were removed from Local Government in 2013, the Local Government workforce had reduced by 13% from 2006 levels.

70. Between 2013 and 2018, LG continued to steadily reduce its workforce to 198k (15% reduction compared to 2006) via service transformation programmes. Significant Scottish Government policy direction since 2018 and the need to respond to COVID has meant staff increases. Back-office functions have been cut to the point where they struggle to maintain day to day support for the frontline and have little or no capacity to flex with additional demands of crisis like the pandemic.

71. If staffing for additional commitments is removed, LG staffing levels would be back at 2018 levels. Trends in other parts of the public sector have seen SG nearly double since 2006, SG Agencies grow by 15% and NDPBs more than double adding a total of over 7,000 staff.

72. It is therefore clear that reducing workforce will directly impact policy delivery and will require roll back of some commitments which have been made.

73. Continued downward pressure on public sector pay, meanwhile, will result in an increase in child poverty – there is already a growing proportion of the public sector workforce who face in-work poverty despite having taken on multiple roles.

Drive for efficiencies could contradict commitments to workforce

74. To deliver on the RSR priorities there must be a greater recognition of and investment in the workforce to demonstrate the value and essential role that they play and recognition of the critical roles they do. If not, and further ‘efficiencies’ are sought from an already hard worked sector, we will see increased levels of absence, of leavers and a continuing reduction in applicants to fill the void. Additionally, there are a number of statutory and policy commitments which prevent any reduction in workforce numbers as it is not possible to deliver services without sufficient staff to do so.

Q6. What impact will the Spending Review priorities have on the delivery of national outcomes in the National Performance Framework?

The RSR makes little reference to the NPF and the National Outcomes

75. COSLA's desire, since Single Outcome Agreements were first introduced in 2008 and reaffirmed by signing the National Performance Framework in 2018, has been to focus on outcomes, not inputs and outputs, and we have long called for there to be less directed funding. There is little evidence of any commitment to this in the RSR. The RSR does not represent a 'new deal' – it does not afford Local Government flexibility, less directed spend or a reduced reporting burden. It points to more of the same, delaying many decisions until budget setting in December.

76. As highlighted by SPICe, "there does not appear to be any analysis of the impact of the spending plans in the RSR on the delivery of the different national outcomes and the outcomes in totality, or of how the data in the NPF has informed these spending plans."

77. The Scottish Government should align budgets to the NPF and the realisation of rights. Additionally, there should be analysis of current policy, legislation and Scottish Budget to ensure that is supporting the progressive realisation of rights. This should be included in all future Programmes for Government as well as the budget process to ensure that new policies, legislation and budgets are best designed and utilised.

78. Consideration should be given as to how the Scottish Government; Local Government and the wider public sector can measure improvements in the realisation of rights to provide evidence to inform future policy and service design. This should also support the prioritisation of budgets to continuously improve. Current reporting and data collection should be considered for whether it is proportionate and captures information which supports the realisation of rights or if it risks driving behaviour with unintended consequences. The focus must continue to be outcomes for individuals and communities.

79. The outcomes that were jointly agreed in the National Performance Framework (NPF) should govern how well Local Government's performance is measured and a much greater focus on how Local Government is achieving over 60% of priorities in the NPF, rather than the current landscape of siloed pots of national funding, with micro-management of each. A more strategic approach is also required to enable Local Government to address the inequalities with our communities in a holistic manner.

Outcomes cannot be achieved without fair funding

80. Ten years on from the Christie Commission, there are a number of positive examples of preventative approaches across Local Government, including interventions to support people to remain in their home for longer and prevent admission to care homes or hospitals, services for children and young people at risk of offending, welfare rights advisors in GP surgeries and homeless prevention services.

81. There has been a will to move towards preventative practice since the Christie Commission, but this has not been easy to do within cycles of short-term funding where agreement of repeat funding is based on evidence of short-term results. Depending on its intended outcome, it may take a number of years to demonstrate the effectiveness of preventative work and this needs to be accepted within planning and budgeting if progress is to be made. More needs to be done to facilitate a meaningful shift to prevention in order to ultimately reduce demands for treatment and care. By taking a preventative approach people can be supported to live well – healthily and independently – for longer.

82. However, to achieve this, there needs to be fair funding for Local Government in the Scottish Budget. Whilst there has been much focus on the role of the NHS in dealing with the pandemic, with the promise of significant levels of investment, this must not come at the expense of critical services which Local Government needs to continue to provide in recovery and tackling poverty and inequality.

Whole-system approach needed – including currently unprotected services

83. There needs to be whole system thinking about health and wellbeing across the public sector. The key social determinants of health – education, housing, employment – are all long-term drivers and must be invested in to improve health outcomes and address health inequality. The Scottish Government's Budget needs to fully recognise the importance of Local Government services in supporting communities to recover following the pandemic and to tackle poverty and inequality. Crucially there will need to be a strong focus on community and economic recovery for which Local Government will need to be resourced to play its part. Targeting resource where the pandemic has hit society hardest is a more effective and value for money use of resource and, where policies are universal, they must be fully funded to enable Local Government to deliver these policies.

84. The approach must shift from input measures to a truly outcomes focused one. There remains a continued focus on 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. For instance, there remains significant focus on increasing teacher numbers as an end in itself. Whilst we welcome additional investment and value the huge impact that our teaching workforce makes,

COSLA has been consistently clear that achieving the shared priorities for children and young people – tackling the poverty related attainment gap, supporting the health and wellbeing of children and young people, and ensuring we create a skilled workforce that meets the need of Scotland's economy – will require support from a range of Local Government services and professionals.

Q7. How should the Scottish Government target spending in its budget to achieve net zero targets?

Achieving net zero requires meaningful, long-term investment

85. The issue is not necessarily about targeting funding to deliver net zero targets but the amount of funding that is available, both for specific programmes and for Local Government more generally, and how this resource is coordinated and scaled up to ensure effective delivery against an extremely tight timeline. The reports by the Climate Change Commission in December 2021[28] and March 2022[29] show how challenging delivery against national mitigation targets and adaptation goals will be during this decade and that we need to be focused on rapid delivery towards the 2030 Climate Change Act target.

86. Likewise, the Climate Emergency Response (CERG) Group in its September 2021 report[30] recommend shifting to a new paradigm in how Local and Scottish Government prioritise and resource work on decarbonisation. The critical nature of the next few years is also picked up by the recent report by Audit Scotland: Addressing climate change[31] in Scotland. Above all of this is the recent report by the Intergovernmental Panel on Climate Change (IPCC)[32] which emphasises the stark reality of the global climate crisis, the short window we have for action. The warning in all of these reports is that rapid delivery is now essential and that future targets will not be met unless rapid progress is made in the next few years.

87. We, therefore, face a delivery gap against our shared mitigation and adaptation ambition which we must do our collective best to fill. We argue that this delivery gap arises, in part, from the funding and effectiveness of national programmes and a lack of funding and capacity within Local Government and the wider public sector to innovate and pursue local projects and programmes which enhance or build upon the national programmes.

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28 Progress reducing emissions in Scotland 2021- report to Parliament
29 Is Scotland climate ready? – 2022 Report to Scottish Parliament
30 CERG_Report_Final_Sept_2021.pdf
31 Addressing climate change in Scotland
32 AR6 Climate Change 2022: Impacts, Adaptation and Vulnerability — IPCC

88. As an example, to deliver on the Heat and Building Strategy[33], by 2030 emissions from homes and buildings will have to fall by 68% against 2020 levels. This requires:

- Very significant progress toward all homes reaching EPC C
- The vast majority of the 170,000 off-gas homes on fossil fuels switching to zero emissions heat
- At least 1 million on-gas homes switching to zero emissions alternatives
- The equivalent of 50,000 non-domestic buildings switching to zero emissions alternatives

89. This task is enormous. The Scottish Government has committed to spend £1.8 billion of capital funding during the next five years on energy efficiency upgrades and zero emissions heating deployment and recently provided Local Authorities with £2.4 million of revenue funding (£75 thousand per council) to support the development of Local Heat and Energy Efficiency Strategies (LHEES), which will provide the evidence and strategy for deploying much of the capital. This capital sum, as large as it is, is small compared to the total cost of decarbonising buildings in Scotland, with a large portion of this overall cost likely to fall to homeowners and businesses.

90. In overall terms Scottish Government capital funding for Local Government has at best been provided at a flat cash level year on year and this trend is set to continue over the period of the Capital Spending Review. Whilst £150m is being provided specifically for the flood risk management programme over the 5-year period, apart from the above example it remains unclear where the additional and substantive funding will feed into Local Government investment in achieving net zero, planning for which must start now.

Local Government is the key partner in tackling climate change

91. How we achieve this in a timely and just way is nothing short of a national mission and will require this level of coordination and effort. Local Authorities are well placed to facilitate the local transformation of the building stock, whether that is planning the transition through LHEES, enabling funding and finance, or taking an active role in delivery. This is an active area of work for COSLA and Scottish Government but if we are to increase the pace of delivery more resource – both human and financial – will need to be found in the short term to supplement existing funding.

92. The transport sector is another massive challenge. Transport is the single largest emitter of greenhouse gas emissions in Scotland and will require multiple interventions across a range of policy areas. Transport emissions have largely flatlined since 1990. Deep cuts in transport emissions will require system wide thinking and integrated delivery, which Local Government is uniquely placed to

33 https://www.gov.scot/publications/heat-buildings-strategy-achieving-net-zero-emissions-scotlands-buildings/

support. The Local and Scottish Government joint route map to achieve a 20 per cent reduction in car kilometres by 2030 illustrates some of this challenge.

93. As an example, one of hardest areas to address is demand reduction and behaviour change. While substantial capital funding will still be required, new revenue funding will be necessary to pay for the public engagement required to have an impact on car usage. This will have to be matched by public transport, active travel and electric vehicle infrastructure investment, all of which will need an element of revenue funding to sustain. It is also unlikely that we will see a sustained shift away from car usage without rethinking travel patterns and encouraging people to stay more locally.

94. This again requires a whole systems approach, with planning, regeneration, housing and digital service providers working closely together, all of which will take planning, staff time and further revenue spend. Yet, the benefits to communities in terms of health and economic outcomes could be substantial. It seems unlikely to us that this can be achieved solely by the current targeted funding approach, which focuses on smaller and unconnected funding pots. This will fundamentally require substantial and flexible investment in Local Government if we want to see the pace of delivery increase to the levels required by the legislative targets.

Q8. How has the Scottish Government reflected its commitment to fiscal transparency in the Spending Review and how can it best ensure that spending in the Budget 2023-24 can be properly identified and tracked?

Not just about transparency but flexibility too

95. The way in which Local Government is funded in the Scottish Budget provides a good example of how there is currently a lack of transparency. The funding provided from the Scottish Budget to Local Government comes from different departmental budgets within the overall Scottish Budget which creates a lack of transparency, with very often no clear lines showing what departments have set aside for providing funding to Local Government. This leads to an argument over what makes up Local Government funding, what is core funding which can be used flexibly, compared with departmental funding lines which are provided with substantial conditionality attached and little or no flexibility. There is not the same strategic approach to Local Government funding as there is in funding for the NHS.

96. The question should not be about tracking spend which places too great a focus on inputs. Far greater emphasis should be placed on tracking outcomes rather than tracking spend. 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.

97. There is a further important point to make in response to this question, that it is not just about transparency, but equally, if not more importantly, it is about flexibility. The forthcoming review of Local Government Capital accounting presents a very concerning example of how flexibilities which Local Government can currently utilise, could be significantly and further eroded. The review presents risks that flexibilities which Councils currently have through statutory mitigation will be lost – that is the current arrangement whereby Councils can account for assets on a funded basis rather than a depreciation basis and can spread borrowing costs over a longer lifespan – with the risk that ultimately Local Government's power to borrow will be curtailed. The present system for accounting for Local Government borrowing works well, is transparent, and has responded to accounting standards. The last thing Local Government needs at this time is a review which takes time and distracts from the real issues to be addressed, creating unwanted uncertainty. There should instead be a focus on financial viability and sustainability, as has been emphasised in other parts of this submission.

Collaboration in budget-setting is welcome and must continue

98. A consultative approach and a longer-term conversation about fiscal sustainability is required. As the 'fiscal conversation' process continues after the RSR process, it is important to ensure any engagement is meaningful, accessible and easy to understand, particularly if the aim is to engage as widely as possible.

99. A collaborative approach to budgeting is welcomed and needs to be extended further and link with both the Programme for Government and the development of manifestos. These should be 'sense checked' against the priorities and outcomes and any funding assumptions should be developed with relevant partners. There are numerous examples of announcements made prior to any engagement with Local Government where it transpires that cost assumptions are significant underestimates – for example the expansion of Free School Meals. Local Government must be engaged as early as possible.

APPENDIX 1

Local Government Contribution to the Resource Spending Review Priorities

COSLA's response to the Scottish Government's Resource Spending Review clearly set out that Local Government is **the** crucial partner in addressing all three of the Resource Spending Review priorities and is integral to the role of improving outcomes for people across Scotland.

In discussions held since the response was submitted, Ms Forbes has raised comments about not being able to understand the contribution that Local Government makes to each priority and the outcomes that Local Government is achieving. We are concerned that the Local Government contribution as highlighted in our response has not been understood and so we want to ensure that this information is provided in as clear a way as possible, in order to clearly track the contributions against the priorities. The table below sets out the multitude of Local Government services that are key to addressing each of these priorities. There are a number of other services delivered by Local Government that, although are not directly related to the three priorities, are vital to improving outcomes and to support people to Live Well Locally. These are also set out below. These lists are not exhaustive.

Supporting progress toward meeting child poverty targets

- Early Learning and Childcare, including delivery of 1140
- Nurture support
- vulnerable 2 year olds
- Education (Primary, Secondary, Special) and Additional Support for Learning
- School Transport
- Delivery of Free School Meals (including FSM during holidays)
- Delivery of School Clothing Grants

Address climate change

Local Government is critical to the delivery of multiple strands of the Just Transition:

- Transport decarbonisation
- Heat Decarbonisation
- Energy efficiency in domestic properties, new build and retrofit
- Waste and the Circular Economy
- Land use and planning

Secure a stronger, fairer, greener economy

- Fair Work
- Economic Development and Business Support (including Business Gateway)
- Employability Support
    - Employability Partnerships
    - Delivery of No One Left Behind
    - Youth unemployment support, including apprenticeships, job creation schemes
    - Supported Employment
- Tourism Support
- Culture and Leisure

Supporting progress toward meeting child poverty targets

- Delivery of Summer activities
- Children and Families Social Work (including Child Protection)
- Supporting information requests for Child Disability Payments
- Employability support across the age ranges and prioritising those furthest from the labour market
- Financial Inclusion and welfare services, crisis support, advice services
- Delivery of low income support and benefits:
  - Scottish Welfare Fund
  - Discretionary Housing Payments
  - Council Tax Reduction scheme
  - Housing Benefit
  - Scottish Child Payment Bridging Payments and
  - information supporting Scotland's devolved Social Security system
- Direct Social Housing
- Non-HRA Housing (capital)
- Housing Support Services
- Homelessness Services (and RRTPs, Temporary Accommodation)
- Public Transport

Address climate change

- Environmental Health & Housing standards
- Regeneration
- Biodiversity and nature-based solutions
- Employability, skills and education in emerging areas supporting net zero
- Business support
- Leadership, communications and behaviour change
- Digital connectivity
- Digital inclusion and literacy
- Tackling inequalities and poverty, including fuel poverty

- Public Transport
  - LA Transport
  - Non-LA public transport – concessionary fares, support to operators and voluntary groups, coordination
  - Public transport – capital
- School Transport
- Community Learning and Development
- Coastal Protection
- Flood Defence and Land Drainage, Flood Risk Management
- Waste Management:

Secure a stronger, fairer, greener economy

  - Museums and Galleries
  - Cultural and historical assets stewardship
  - Libraries
  - Performing arts
  - Countryside Recreation and Management
  - Sports Facilities
  - Paths, Community Parks and Open Spaces

- Regulation and enforcement – Trading Standards and Environment Health
- Licensing

- Local Government is a driver of the local and national economy
  - As a significant employer in local places
  - Procures significant amounts of goods and services in local places

- Facilitation of Community Planning
- Community safety
- Facilitation of Community Planning

Supporting progress toward meeting child poverty targets

- Community Learning and Development, including Youth Work, Adult Literacy and Numeracy
- Digital exclusion
- Digital literacy
- Culture and Leisure
  - Museums and Galleries
  - Libraries
  - Community halls
  - Theatres and performing arts
  - Countryside Recreation and Management
  - Sports Facilities
  - Paths, Community Parks and Open Spaces
- Administration of the Scottish Milk and Healthy Snack Scheme
- Delivery of Whole Family Wellbeing Fund
- Delivery of Community Mental Health and Wellbeing Support
- Delivery of the Suicide Prevention Action Plan
- Delivery of Free Period Products
- Facilitation of Community Planning
- Public health
- Fair Work
- Community and youth justice
- WAWG / Equally Safe Delivery Plan

Address climate change

  - Collection
  - Disposal
  - Recycling (Household and Commercial)
- Waste Education
- Planning:
  - Development Management
  - Planning Policy
  - Environmental Initiatives
- Network and Traffic Management (capital)
- Electric Vehicle Infrastructure
- Active Travel projects
- Road/Non-Road Lighting
- Open Space and Biodiversity
- Facilitation of Community Planning

Secure a stronger, fairer, greener economy

Wider Local Government Services that contribute to improving outcomes for people across Scotland

- Democratic accountability
- Adult Social Care (including care homes, sheltered housing, day care, supporting adults at home, carer support, respite breaks, adult protection, community care, learning disability, Autism and Dementia services, self directed support)
- Integration Joint Boards / Health and Social Care Partnerships
- Supporting information requests for Adult Disability Payments
- Criminal Justice Social Work Services, including Youth Justice
- Community Justice
- Community Safety
- Violence Against Women and Girls Services
- Implementation of Trauma Training Programme
- Children’s Hearings
- Throughcare and Aftercare
- Continuing Care
- Fostering and Adoption Services
- Kinship Care
- Migration, Resettlement and Integration support
- Roads and Road Safety – Construction, Roads Maintenance, Winter Maintenance, School Crossing Patrols
- Road Bridges
- Piers and Harbours
- Parking Services, including administration of Blue Badge Scheme, parking for disabled people
- Cemetery, Cremation and Mortuary Services
- Street Cleaning
- Environmental Health
- Trading Standards
- Building Standards
- Registration of Births, Deaths and Marriages
- Emergency Planning
- Licensing
- Allotments
- Administration of Covid-19 and other grants (Self Isolation Support Grants, business grants, £150 cost of living award)

Other important services which Local Government undertake:

- Conducting Elections
- Registration of Electors
- General Grants, Bequests and Donations
- Council Tax Collection

- Non-Domestic Rates Collection
- Council Tax Valuation
- Non-Domestic Lands Valuation
- Local Land Charges

Written Submission from South Lanarkshire Council

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

It is acknowledged that health and social care and social security are considered priorities as we come out of the pandemic and into a cost-of-living crisis.

However, the outcome of prioritising these areas means that other areas of public spending that are considered unprotected, including local government, face real cuts in funding.

In March 2022 Audit Scotland concluded that, once specific Covid funding was removed from any calculations, "councils have seen funding reduce, in real terms, by 4.2% since 2013-14, with increasing amounts of funding ring-fenced to meet Scottish Government priorities." Figures received from Audit Scotland indicated that, when funding for Scottish Government priorities is removed, the real terms cut to local government core budgets is over 9.6%.That ultimately means that councils will have to face decisions around the services they provide, like education, waste collection and work on public protection, such as against anti-social behaviour.

In short, ringfencing and prioritising of certain areas comes at the cost of reducing other budgets. This is a significant factor in the budget gaps that councils are facing across Scotland – on 15 June 2022 elected members at South Lanarkshire Council were advised that the budget gap we face in our 2023-24 revenue budget stood at £37.541 million before any solutions are identified and applied. The solutions and savings that will require to be found in order to bridge such gaps, across Scotland, will mean tough decisions regarding the sustainability of key services that citizens depend on, especially the vulnerable.

The Scottish Fiscal Commission (SFC) notes that Scottish income taxes have grown more slowly than the rest of the UK and is forecasting Scottish taxes to be around £360 million less in 2023-24 than they would be without income tax devolution. The SFC is also forecasting that, as a result of forecast error, the Scottish Budget in 2023-24 could be £221 million lower. How should the Scottish Government's Budget 2023-24 respond to this challenge?

Matters of income taxation, and the rates and bands that apply, are for the Scottish Government to consider as they manage their budget. This also applies to how the potential shortfall of £581 million for 2023-24 is managed.

We note that in their Local Government in Scotland Overview 2022 (published May 2022) Audit Scotland noted that the 4.2% reduction in Scottish Government funding for councils since 2013-14 contrasted “to an increase of 4.3 per cent in Scottish Government funding of other areas of the budget over the same period”.

In local government, year on year we have faced challenges to balance budgets, with increasing costs that have not been matched with increasing settlements. That work has included an ongoing focus on finding ever more efficiencies, and ultimately having to make decisions around what can and can’t be afforded in terms of service delivery.

The Scottish Government has longer-term budget planning that should allow them to be able to consider the impacts of any budget changes over the medium term. For local government there would be an obvious benefit if there was a move to multi-year settlements, which would allow a longer-term planning approach.

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

Inflation is already having a significant and damaging impact on council services. Inflation hits across our own delivered services, services we commission and on our day to day running costs in similar ways to the impacts that our residents are feeling in their own pockets (utilities, food, materials etc). Inflation also impacts on our capital programmes – like all sectors, we have seen large increases in the costs of materials. Unlike the private sector, of course, we do not have the option of passing those costs on directly to the customer.

With general inflation projected to rise above 10% in the coming months, and costs for particular items considerably in excess of that figure, we anticipate pressures on local authority budgets to increase.

Our starting point in response to this would be that the impact of the significant, extraordinary effect of inflation should be recognised in funding settlements for local government. This should extend to include the impact on pay awards for our workforces. Flat cash settlements give no ability to invest in the workforce in response to the high inflation levels. Local authority employees have taken the brunt of pay restraint since the financial downturn in 2008 with salaries reduced by over 22% in real terms.

Local authorities are also key to addressing the cost-of-living crisis more generally, and in particular how it affects our residents. We provide assistance and support across our areas to those who are struggling to meet the costs of living – money advice, support into employment, backing for the Living Wage, the Council Tax Reduction scheme and in many other ways.

Without the recognition of that key role in financial settlements many of these services will be more difficult to deliver. As well as local government services having to be cut, potentially resulting in significant job losses, there will be a reduction in essential services for the public at a time when some people will need them most.

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

a) Digitalisation

For the past six years councils have been working together to accelerate Digital Transformation, thereby delivering service improvements and efficiencies. All Scottish local authorities participate in the Local Government Digital Office and benefits have been realised in delivering Once For Scotland solutions rather than re-inventing the wheel 32 times.

Particular benefits have been realised in the areas of cyber security and Microsoft 365 rollout, both of critical importance to support agile working during the pandemic. The common platforms initiative has the potential to deliver returns more quickly.

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

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

The Scottish Government should look at ways whereby councils can be encouraged to move to standard solutions, perhaps by assisting with project/implementation costs where this is a barrier. This initiative will also help remove legacy systems which may be a cyber risk.

In addition, the Scottish Government could consider how best to exploit data by building a standard data platform which can be securely used by councils to:

- Cleanse data to improve quality
- Enrich data by joining datasets
- Generate dashboards and standard data returns
- Provide high quality management reporting

This capability, which councils are unlikely to develop in isolation in the short term, would enable senior managers with insight to and insight to both improve services and identify future efficiencies.

b) Maximising revenue through public sector innovation.

Councils have had many years of having to look at more efficient practices. There has been a move towards councils looking to maximise revenue in more creative ways and in more commercial manners that will allow continued financial support for core budgets. As budgets become tighter, the need to explore these options becomes more pressing

Areas that have been, or are being, considered include expanding charging for services, full cost recovery and working in partnership with private partners to bring in investment, such as electric vehicle charging and energy production/management.

c) Reform of the public sector estate

Through the Heat Networks Act and Scottish Government's Heat in Buildings Strategy, the public sector estate is identified as an opportunity to progress and pilot decarbonised heating and energy efficiency technologies and methods. These approaches will result in increased spending required to meet new standards or guidance and as such may conflict with any suggested review or decrease of spend in this area.

Within its response to the Scottish Government's Heat in Buildings Strategy Consultation in April 2021, South Lanarkshire Council highlighted the need to consider adequate levels of support and funding were made available to local authorities and the wider public sector to meet the challenges associated with the decarbonisation of both domestic and non-domestic buildings they own or operate. This includes both capital and revenue funding.

The scale and nature of such projects will require funding across several financial years, therefore it is important that key areas of expenditure can be funded on more than an annual basis. A continued and stable investment programme can encourage innovation, collaboration and drive efficiencies.

d) Reform of the public sector landscape

The most significant reform of the public body landscape planned over the lifetime of the current parliament is the proposed creation of a National Care Service (NCS). Our concerns around this development are wide-ranging and were set out at length in our response to the NCS consultation.

Looking specifically at efficiencies, we would reiterate our view that structural change is not necessary to achieve the outcomes articulated in the review of adult social care: the same results could be achieved more quickly, and at lower cost, with targeted investment and appropriate reform within existing structures.

Crucially, there is a risk that shifting services into the NCS would fundamentally undermine the ethos of whole system, place-based, person-centred working. It would move away from the key principle that local systems, services and workforces are best placed to identify the specific needs of people and communities in their local authority area and to ensure that workforces have the knowledge, skills and resources to respond to these needs.

These factors would, in our view, weigh heavily in the balance against any straightforward efficiencies that the NCS might realise.

We remain concerned that there has been no detailed assessment of the risks associated with the creation of an NCS and the transfer of accountabilities, resources and staff from local government.

e) Improving public procurement

With eight years having passed since the last Procurement Reform Act in 2014, the Scottish Government should consider the scope for further reform to procurement legislation. At a UK level, reform is being driven by EU Exit and the view that procurement reform can move away from the rules-based approach driven by the single market, but consideration needs to be given to how this can be achieved in Scotland, while maintaining the principles of fairness and transparency and ensuring that public sector procurement is aligned to National Outcomes. In respect of public procurement structural reform, we note the commitment in the Spending Review to increase cross sectoral consolidated procurement and agree that there is scope to consider the roles of Centres of Expertise more widely across the public sector to maximise value from public spending.

How effective do you think these reforms will be in delivering efficiency savings in the Scottish Budget 2023-24, and beyond? If you have additional or alternative priorities for achieving

efficiencies (for example within your public sector area), please provide details.

Local government have been delivering efficiencies for over a decade due to financial settlements being insufficient to cover costs. Measures include all of the areas listed above. So we are not starting from a position where there are still significant further efficiencies to be had in these areas. Other areas that we have looked to include rationalising management and supervisory structures, spend to save proposals, better use of technology, modernising of services /systems, as well as having to consider how and what we do.

For digitalisation, the biggest saving opportunity is in robustly encouraging the use of common platforms across councils. For example, the recent widespread adoption of Microsoft 365 is enabling efficient collaboration between councils and with the NHS.

Standard solutions eliminate duplication, costly customisation and enable faster redesign and transformation of business processes by leveraging developments and best practice from other councils

In terms of the public sector estate, consideration should be given to the actions, efficiencies and modernisation efforts that have already been progressed by local authorities and other organisations in relation to the public sector estate to reduce costs associated and ensure it meets current service requirements.

The Public Sector approach to Asset Management delivers continuous review of assets, and in the post-Covid service environment there will require to be changes in the location, design and scale of the public estate to meet changing service need. While this process can generate capital receipts and revenue savings over the medium to long-term, investment is required in building fabric, digital connectivity and service redesign in order to effectively implement initial re-configuration, particularly where co-location is proposed. Given the current pressures on the construction industry the delivery of additional short-term benefits for 2023-24 would appear unlikely as proposals would require to be already underway.

It may instead be worth considering how previously suggested revisions to private finance models and supplier frameworks can be progressed to aid local authorities in meeting the future challenges associated with building management. Where these revisions represent a repackaging of existing council spend, this should not be viewed as a substitute for additional, substantive funding.

In terms of public procurement, the Scottish Government will need to recognise current market conditions and the expected medium to long-term impacts of inflationary pressures, which are expected to last through the parliamentary term, in driving efficiencies through procurement. The impact of added value in procurement, including the sustainable procurement duty and guidance on Climate, Fair Work First, Living Wage and local agendas in respect of Community Wealth Building will need to be balanced against achievement of efficiencies. The introduction of the National Care Service is expected to have a significant impact on Social Care commissioning arrangements across Scotland for both local authorities and the Centre of Excellence.

Looking at the public body landscape, we also believe the proposal to create an all-embracing National Care Service with constituent Community Health and Social Care Boards (CHSCBs) will be a costly, disruptive, and potentially ineffective reform which will take time, energy and resource away from addressing core problems. The NCS project overlooks the role of contextual factors such as chronic underfunding, socio-economic challenges, and fragmentation across the wider public health and social care system, in determining the outcomes that care service users experience. It introduces a level of risk that has not been fully assessed or mitigated.

We have further concerns in relation to the costings and we question how much can be achieved with the limited monies available. To date no information has been provided on modelling of volume or costs of demand for the NCS, nor how the additional investment will be funded on a recurring basis. The Independent Review of Adult Social Care report suggested an indicative £0.66bn requirement per annum but is acknowledged as not covering all elements of the 53 recommendations and is based on a rudimentary uprating of historic service volume data as a proxy for the costs of unmet need. COSLA has suggested a figure well in excess of £1.2bn per annum, albeit with a clear acknowledgment that considerable detailed work will be needed to confirm the adequacy of this sum and what level of entitlements would be needed. The potential investment is not only a game changer but a necessity - the Fraser of Allander Institute recently commented “an underfunded national care service is unlikely to be any better than the system it seeks to replace”. Our argument is that if sufficient funding is available, a structural change is unnecessary.

Finally, we would argue that much of the detailed work still requires to be done to understand the implications and practical impacts of the creation of the NCS. This work includes the design of the new care entitlements and support models; access arrangements; the financial framework that will support the new investment and a range of other fundamental assessments. To take a decision on the scale of structural change before these fundamental developments relating to function are completed and the full implications are understood is premature and presents significant risk to all stakeholders.

We would argue that an important part of these considerations would be developing an understanding of the impact on councils of such a major change in the public sector landscape; removing such a large part of the work of councils from them would inevitably have serious consequences on how they manage their finances and balance their workforces. It would be a serious omission if the likely future shape and function of councils was not modelled before a decision was taken to remove their health and social care responsibilities.

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

The spending review rightly states that “local authorities play a vital role in delivering public services and are key partners in the delivery of the priorities set out by the spending review” (p.27). More broadly, local authorities have a significant role to play in helping to deliver the national outcomes overall.

The flat cash commitment to local government will, in the current context, lead to pressure on many services, and this in turn will impact on local government’s ability to deploy resources that support the national outcomes.

The national outcomes that might be most affected are those that are strongly influenced by how people experience their local areas, communities and sense of agency and empowerment. These include:

- people grow up loved, safe and respected so that they realise their full potential
- people live in communities that are inclusive, empowered, resilient and safe
- people value, enjoy, protect and enhance their environment
- people have thriving and innovative businesses, with quality jobs and fair work for everyone
- people are healthy and active
- people tackle poverty by sharing opportunities, wealth and power more equally

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

Within its response to the Scottish Government’s Heat in Building Strategy and discussions with the Scottish Government on the implementation of Local Heat and Energy Efficiency Strategies, South Lanarkshire Council suggested that public funding should be prioritised for those ‘least able to pay’ for any proposed actions to achieve net zero and highlighted that owner contributions are the most significant barrier to building owners accessing current funding streams.

Given the complexities of bringing forward Local Heat and Energy Efficiency Networks the council suggests directing investment toward the considerable cost of decarbonisation of core public sector assets would deliver more immediate benefits.

The council also highlighted the lack of financial support identified for the social housing sector in the investment plans and outlined the risk this would have on low-income households, including social housing tenants, in relation to fuel poverty and the costs of living. The continuing disparity in grant subsidy between local authorities and RSLs is unacceptable and does not represent Best Value.

Consideration should be given to agreeing long term funding models to provide confidence to building owners, suppliers and consumers to help achieve the net zero targets. In addition, continuing and increased multi-year capital investment for (1) EV charging infrastructure both for public and fleet charging hubs, (2) Low Carbon fleet transition and (3) walking and cycling infrastructure.

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

To achieve transparency a move towards a more collaborative approach to budget setting would be welcomed.

There have been calls to reduce the level of ring-fenced small pots of money, and a move towards more ability to make local decisions to achieve wider outcomes and this approach would be welcomed, rather than looking to ensure “tracking” of the spending review proposals.

There are a number of areas of spend within council budgets which are subject to preservation as a result of instruction from Scottish Government, such as a requirement to maintain teacher numbers for example, or maintain contributions towards Health and social care partnerships. This restricts the opportunity for local flexibility reflecting the actual circumstanced affecting councils. Councils are looking for flexibility across all of their budgets to allow them the opportunity to make decisions locally to achieve the wide outcomes.

Addendum to South Lanarkshire Council's response to the Finance and Public Administration Committee's Pre-Budget Scrutiny 2023/24 consultation

[Note: as previously advised to the Committee Clerk, the Council's draft response was submitted before it could be formally agreed by the Executive Committee at its meeting on 24 August 2022. Committee members approved the response but asked that the following comments be submitted as an addendum.]

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

We would like to make additional comments to further stress the severity of the financial situation facing local government. These are overarching comments but likely sit best under Q1 above.

Our Executive Committee discussion took place against the backdrop of industrial action impacting on some council services, and elected members said this was a direct consequence of the financial pressures being faced by local authorities. Members said this situation would only worsen unless more funds were made available. Members said that, fundamentally, without adequate funding for local authorities, there would be a long-term, worsening impact on council services and on efforts to address national priorities such as tackling poverty and climate change.

Q3. How should the Scottish Government respond to inflationary pressures and the cost of living crisis in its Budget 2023-24?

The council's initial response noted that inflation was "projected to rise above 10%". We would like to add that since that response was written both the Consumer Prices Index and the Retail Prices Index are already tracking at two percentage points or more above that figure, with projections of substantial further increases to come. As we submit this addendum the Bank of England predicts inflation will rise to more than 13% in the coming months, while investment bank Citi has said inflation could rise to 18%, and the Resolution Foundation has suggested it could reach 18.3%. Such increases will substantially add to the pressures on local authorities we outlined in our substantive response.

Q6. What impact will the Spending Review priorities have on the delivery of national outcomes in the National Performance Framework?

We would like to emphasise how the funding model for local government impacts on our ability to deliver in terms of national outcomes, and services generally. As the committee will be aware, approximately 84% of councils' income comes from their Scottish Government grants – the remainder being largely from Council Tax receipts. This dependence on our grant means that there is a disproportionate effect from any decisions taken relating to that funding – whether to increase/decrease grants or provide flat settlements, or to divert money from local government to other areas of the Scottish budget, or to ringfence monies that are given to councils for particular purposes.

ANNEXE B

SPICe The Information Centre
An t-Ionad Fiosrachaidh

Finance and Public Administration Committee

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

Introduction

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

Pre-Budget scrutiny aims to:

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

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

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

The specific questions asked by the Committee were as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Priorities for the Resource spending review

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

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

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

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

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

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

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

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

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

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

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

Suggestions for additional funding

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

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

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

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

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

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

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

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

Money Advice Scotland argue that

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Funding local government

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

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

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

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

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

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

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

COSLA/SOLACE/CIPFA argue:

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

Cost of living, inflationary pressures and public sector pay

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Public Service Reform

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

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

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

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

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

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

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

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

On digital public services, the David Hume Institute state that

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Procurement

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

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

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

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

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

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

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

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

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

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

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

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

Revenue raising options

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

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

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

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

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

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

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

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

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

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

The Child Poverty Action Group call for the Scottish Government to

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

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

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

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

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

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

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

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

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

Spending and the national outcomes

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

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

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

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

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

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

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

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

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

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

The Scottish Women’s Budget group state that the

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

Transparency

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Net zero obligations

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

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

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

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

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

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

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

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

Equalities and human rights budgeting

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ross Burnside, Senior Research Specialist, SPICe Research
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