Finance and Public Administration Committee

25th Meeting 2023 (Session 6), Tuesday 3 October 2023

The sustainability of Scotland's finances

Purpose

1. The Committee is invited to take evidence on its pre-budget 2024-25 scrutiny from Shona Robison MSP, Deputy First Minister and Cabinet Secretary for Finance. The Deputy First Minister will be accompanied by Scottish Government officials: Dr Alison Cumming, Director Budget and Public Spending, and Dr Andrew Scott, Director of Tax and Revenues.

2. This paper provides background information and highlights key issues raised in evidence heard during the Committee's pre-budget 2024-25 scrutiny on the sustainability of Scotland's finances. The Committee previously agreed that the evidence it received in relation to its recent public service reform inquiry would inform its pre-budget scrutiny and, therefore, this paper also includes a summary of issues raised during that inquiry, to support the Committee's questioning. Finally, the paper provides an update on other developments relevant to the Scottish Budget, such as the recent Fiscal Framework update, Programme for Government 2023-24, and the Verity House Agreement, to inform Committee Members' questions to the Deputy First Minister.

3. The Committee's call for views for its pre-budget 2024-25 scrutiny attracted 27 submissions, which are published on the Committee's inquiry web pages. A SPICe summary of the main themes identified in the written submissions is also available. A summary note has been produced of the Committee's engagement event, which took place in Largs on 30 August, where participants discussed their priorities for the Scottish Budget 2024-25 and beyond.

4. 32 written submissions were received in relation to the Committee's recent public service reform inquiry. SPICe also produced a summary of the written evidence received. The Committee held evidence sessions as part of this inquiry from May to September 2023[1], and Official Reports of these evidence sessions are available on the Committee's web pages. A detailed summary of key issues raised at each evidence session are included in the Committee's 12 September meeting papers.

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

Fiscal sustainability

5. In its pre-budget 2023-24 Report, the Committee said it was “not convinced that the Scottish Government is carrying out enough strategic long-term financial planning to ensure future fiscal sustainability". It also sought more evidence on how the Scottish Government is seeking to strike the right balance between responding to the immediate financial pressures and addressing long-term fiscal challenges. The then Deputy First Minister’s response to the Report referred to the Scottish Government’s plans for public service reform being “founded on a commitment to strategic long-term financial planning that ensures future fiscal sustainability” and noted that its approach to the 2023-24 Budget addressed both short and long-term needs. The response went on to say that the Scottish Government “will continue to develop our approach to medium and long-term financial planning and will set this out in our next Medium-Term Financial Strategy”.

6. The Scottish Fiscal Commission (SFC) published its first Fiscal Sustainability Report on 22 March 2023, projecting the Scottish Government’s spending and funding up to 2072-73, with a particular focus on demographics, trends, and the cost of delivery of public services. It uses the balance between spending and funding to assess the long-term fiscal sustainability of the Scottish Government’s current tax and spending policies and its “annual budget gap”.

7. The SFC concluded that, “if public services in Scotland are to continue to be delivered as they are today, Scottish Government spending over the next 50 years will exceed the estimated funding available by an average of 1.7% a year”. This, it notes, is equivalent to £1.5 billion in today’s prices and “represents approximately 4% of average Scottish Government spending on health in each year, or 6% of average devolved income tax revenues”. To address this, the SFC argues that the Scottish Government would have to consistently reduce spending or raise devolved taxes through the next 50 years”.

8. Scotland’s population is projected to fall by approximately 400,000 over the next 50 years, driven by a low birth rate. The proportion of the population aged 65 and over is expected to increase from 22% in 2026-27 to 31% by 2072-73, while the working age (16-64 population) and under-16 population will fall in size. Scotland has a projected net annual inflow of migration averaging 19,000, including international and domestic migration. The changes to population structure will, the SFC argues, “translate into different levels of demand for public services, with higher pressure on health services and reduced demand for services used by younger people, such as education. Total spending on devolved public services (by both the Scottish Government and local authorities) is forecast to be £54 billion in 2027-28, rising to £120 billion by 2072-73.

9. Scotland’s Census 2022 – rounded population estimates published on 14 September 2023 highlighted that the population of Scotland on Census Day (20 March 2022) was estimated to be 5,436,600, a growth of 141,200 (2.7%) since the previous census in 2011. This is a slower rate of growth than between 2001 and 2011, when the population grew by 233,400 (4.6%). The statistics also

confirm Scotland's ageing population. It states that "there are more people in the older age groups than ever recorded in Scotland's Census", with 1,091,000 people aged 65 and over, compared to 832,000 under 15s.

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

10. On 25 May 2023, Scotland's Fiscal Outlook: The Scottish Government's Sixth Medium-Term Financial Strategy (MTFS) was published alongside the SFC's Scotland's Economic and Fiscal Forecasts May 2023.

11. The SFC's May 2023 Forecasts set out its five-year forecasts of the Scottish economy, tax receipts, social security expenditure and an assessment of whether the Scottish Government projections of borrowing are reasonable. The SFC's most recent forecasts are slightly improved on its December 2022 forecasts, with economic growth at 0.3% in 2023-24, rising to 1.3% in 2025-26. Real disposable incomes per person are still expected to fall, by 4% by the end of 2023-24 due to high inflation. The SFC expects total spending to increase in nominal terms each year, and by 13% between years 2023-24 and 2028-29. By 2028-29, the capital budget is expected to be 14% smaller than in 2023-24. Social security spend is forecast to increase from £5.3 billion in 2028-29 to £7.8 billion in 2028-29, and by 2027-28 the SFC expects the Scottish Government to spend £1.3 billion more on social security than the funding received from the UK Government through Block Grant Adjustments (BGAs). Devolved taxes are expected to raise £20.1 billion of revenue in 2023-24, £384 million more than forecast in the SFC's December 2022 Forecasts. Income tax revenues have been revised upward in line with higher employment growth and higher nominal earnings growth, driven by inflation.

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

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

13. In her Foreword to the MTFS, the Deputy First Minister stated that—

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

14. The MTFS further states that "tough and decisive action must … be taken to ensure the sustainability of public finances and that future budgets can be

balanced". It notes from modelling that "our resource spending requirements could exceed our central funding projections by 2% (£1 billion) in 2024-25, rising to 4% (£1.9 billion) in 2027-28".

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

- **Focusing spending decisions on achieving the Scottish Government's three critical missions**[2]. Alongside the 2024-25 Budget, it will refresh multi-year spending envelopes for resource and capital and extend the Capital Spending Review and Infrastructure Investment Plan period by one year, taking these plans up to 2026-27.
- **Supporting sustainable, inclusive economic growth and the generation of tax revenues.** The Scottish Government commits, ahead of the Budget 2024-25, "to explore areas such as seizing opportunities in areas where Scotland has a competitive advantage, such as the Green economy, and supporting entrepreneurs, start-ups and scale-ups; helping businesses to raise productivity; and further boost labour market participation including through an enhanced childcare offer".
- **Maintaining and developing the Scottish Government's strategic approach to tax**. It established an external tax stakeholder group this summer "to consider how best to engage with the public and other stakeholders on the future direction of tax policy, including whether a 'national conversation on tax is required". The outcomes will feed into the Budget 2024-25 and development of a longer-term tax strategy to be published alongside the MTFS in 2024.

Programme for Government 2023-24

16. The Programme for Government (PfG) 2023-24 announced on 5 September 2023 sets out the Scottish Government's proposed legislative programme and actions it intends to take during that year. This provides details of the Scottish Government's policies under its three missions and indicates that the PfG "is unapologetically anti-poverty, pro-growth which is both fair and green, and focused on delivering high quality public services". In her portfolio section of the document, the Deputy First Minister states that "delivering sound public finances, producing a balanced budget and leading cross-government delivery, including to reform Scotland's public services, are my top priorities". She further emphasises that "we continue to face one of the most challenging financial situations since devolution, putting significant pressures on our public finances".

17. "Critical activity" for the Deputy First Minister for the coming year includes:
    - More effective targeting of existing provision and services to support those who need it most, and reflect these in the Draft Budget,

[2] The Scottish Government's three missions it plans to deliver are: Equality - Tackling poverty and protecting people from harm; Opportunity - Building a fair, green and growing economy, and Community - Delivering efficient and effective public services.

- Delivering secondary legislation enabling councils to apply up to a 100% premium on Council Tax rates for second homes,
- Delivering a fair and affordable Non-Domestic Rates package in the Budget,
- Publishing an updated tax strategy alongside the 2024 MTFS,
- Delivering a more efficient approach to public sector property management through the new Single Scottish Estate Programme,
- Starting a public sector four-day working week pilot by the end of the calendar year,
- Delivering a progressive procurement policy and practice as a key pillar of its Community Wealth Building approach,
- Delivering a framework for digital service transformation, and
- Working with island authorities with an ambition to develop alternative governance arrangements, including Single Authority type models.

18. The Deputy First Minister further states she will "progress our shared programme of work with COSLA under the Verity House Agreement (VHA), in particular a revised Fiscal Framework between the Scottish Government and Local Government". The VHA published on 30 June 2023 sets out—

> "The default position will be no ring-fencing or direction of funding, unless there is a clear joint understanding for a rationale for such arrangements … [and] additionally, current funding lines and in-year transfers will be reviewed ahead of the draft 2024-25 Budget Bill, with a view to merging into General Revenue Grant Funding".

19. The VHA goes on to say that the more details will be included in the Fiscal Framework, which will be concluded by the end of September 2023. There will be a presumption in favour of local flexibility where national approaches are being progressed, "so far as is possible and effective" and "existing strategic and service level plans and associated reporting will be streamlined and refined". A monitoring and accountability framework will be agreed, "drawing on proportionate reporting and data collection, to provide evidence and visibility over progress towards agreed outcomes", with independent evaluation of progress invited from Audit Scotland and the Accounts Commission. It is unclear how the announcement of "no ring-fencing or direction of funding" unless jointly agreed may impact on the scrutiny of progress with Scottish Government priorities which are delivered through local government.

20. In the PfG 2023-24, the First Minister highlights that "in my first 100 days I introduced a new approach to how we will deliver as a government, agreeing a mandate letter between myself and each member of my Cabinet which sets out the outcomes they will achieve in the months ahead". The First Minister's mandate letter to the Deputy First Minister of 5 September 2023 sets out his expectations regarding the outcomes she will deliver in this financial year, and priorities for this session of Parliament, which broadly mirror the activity included in the MTFS and PfG. The First Minister invites six-monthly discussions with all Cabinet Secretaries on progress against the outcomes.

21. This new approach may prompt questions around the purpose of these mandate letters, how progress will be tracked, what happens if progress against an

outcome is not achieved, how Government will report to Parliament on progress, and how the mandate outcomes relate to the National Outcomes as set out in the National Performance Framework. Members may be interested to note that the Government of Canada takes a similar approach, however, in his mandate letters, the Prime Minister also asks his Ministers—

> "to return to me with a proposed approach for the delivery of your mandate commitments, including priorities for early implementation. Furthermore, to ensure we are accountable for our work, I will be asking you to publicly report to me, and all Canadians, on your progress toward these commitments on a regular basis."

Fiscal Framework Review

22. At the time of publication, the MTFS further confirmed that "the final version of the independent report on Block Grant Adjustments (BGAs) jointly commissioned by the UK and Scottish governments [to inform the Fiscal Framework] has been submitted to both governments for consideration, but the timing and arrangements for publication are still under discussion with the UK Government".

23. On 2 August 2023, the Deputy First Minister wrote to the Committee confirming that "I have now reached agreement with the Chief Secretary to the Treasury (CST) on a package of changes to the Scottish Government's Fiscal Framework". The Deputy First Minister explained that she had judged it appropriate to concede to a narrower scope for the review (than the more fundamental review originally envisioned) "in the interest of securing long sought practical borrowing and reserve flexibilities, and to protect those arrangements that we already have in place which work in our favour".

24. Alongside the letter, the Scottish Government published an updated Fiscal Framework agreed between the UK and Scottish Governments, as well as the Independent Report commissioned to inform the review. The Independent Report was produced by Professor David Bell (University of Stirling), David Eiser (formerly of the University of Strathclyde) and David Phillips (Institute for Fiscal Studies) around five months before it was published. The Deputy First Minister's letter summarises the main features of this agreement, including retaining on a permanent basis the indexed-per-capita mechanism for calculating block grant adjustments and increasing the resource and borrowing limits.

25. In his letter to the Committee of 11 August 2023, Professor Graeme Roy notes that the sustainability challenges identified in the SFC's March report—

> "are common across the UK, with the OBR projecting similar increases in health spending UK-wide. There are similar trends in other countries, with other fiscal institutions identifying rising costs in healthcare and demographic change as putting pressure on public finances. They would occur under any constitutional settlement or fiscal framework. The recent agreement by the Scottish and UK Governments on the Scottish Government's fiscal framework makes the existing

arrangements for calculating the block adjustments permanent. It therefore would not change the results of our FSR published in March."

26. In evidence to the Committee on 19 September 2023, Professor David Bell said "it came as a surprise to me that we were told that the framework had been agreed on the day on which our report was published", adding "we expected much longer discussion". He however indicated that index per capita method—

> "that was selected for setting the Block Grant Adjustments (BGAs) is probably as good an outcome as Scotland could have hoped for. There have been some increases in borrowing powers, but not massively so. I suspect that that was the trade-off that was being argued about, in the background, between the Scottish Government on the one hand and the Treasury on the other. We are where we are …, we could be considerably worse off."

27. Professor Heald agreed that "keeping the per capita index method was crucial, so that is a success", adding he "would like to have seen more borrowing powers, both for capital and for resource, but I can see that there was a trade-off".

28. Any immediate questions in relation to the updated Fiscal Framework can be asked of the Deputy First Minister at this meeting. However, a separate evidence session has been scheduled with the Deputy First Minister on 21 November 2023, where issues relating to the impact of the agreed changes to the Fiscal Framework can be fully explored. That session will be informed by an evidence session with academics on 14 November.

Fiscal Framework Outturn Report

29. The Scottish Government has indicated that the 2023 Fiscal Framework Outturn Report (FFOR), which will set out the reconciliations that will apply to the Scottish Budget 2023-24, will be published on Friday 29 September. Publication of a FFOR in September each year was a recommendation of the 2017 Budget Process Review Group, which also noted that the FFOR should be based on audited information as far as possible. In practice, FFORs have in previous years been based on both final and provisional figures, due to a delay in audited figures being published.

The Committee's public service reform inquiry

30. The Scottish Government has stated that "balancing the budget will require difficult decisions and reform". It has further indicated that "our programme of reform will be accompanied by a clear financial strategy, taking account of significant changes, available resources and expected cost pressures including demographic changes, technological advances and inflation, as well as considering necessary mitigations".

31. Against this background, the Committee has agreed to use the evidence gathered as part of its public service reform inquiry to inform its pre-budget 2024-25 scrutiny on the sustainability of Scotland's finances, including questioning at

evidence sessions and the findings in its report. To prompt questions to the Deputy First Minister, key themes of issues raised during these evidence sessions include—

- The Scottish Government needs to provide a vision, oversight, direction and underpinning investment for its reform programme, as well as a sense of purpose and clarity on the intended outcomes. It should seek meaningful feedback from the public through an "honest conversation" about the financial challenges being faced, what the public would like to see from their public services, which reforms are required to deliver these services and which organisations are best placed to deliver them.
- Without a 'mandate' the delivery of cost savings and improved services "will not happen". An incentive to collaborate is also needed otherwise people "tend to pick off the bits round the side that do not threaten their own jobs".
- Achieving efficiencies as part of managing budgets is not genuine reform and carrying out reform at a time of financial pressures will not achieve effective change or sustainable delivery of services.
- There are skills shortages in the 'digital data space' in the public sector, where "we are all fishing in the same pool for the same capability". Smaller bodies are at a "massive disadvantage in negotiating with private sector suppliers". Pooling these kinds of resources could help transform public services.
- Data sharing, automation of processes, and using artificial intelligence[3] and common systems across public services would enable "powerful collaboration", deliver efficiency and improve quality.
- A wider national steer and subsidy leverage is needed to ensure robust digital infrastructure, including equity of digital position across all bodies.
- Ring-fencing a group of experts from public bodies with reform as their primary focus would "see some really positive movement".
- Corporate reporting should be used to demonstrate how bodies are making progress against reform objectives.
- 'Cultural friction' can occur when bodies are brought together into one structure. Early and continued effort and engagement with staff and stakeholders is required to avoid or minimise this.
- The cluttered landscape of public bodies needs to be addressed.
- More focus is required on complementary reform and collaboration across local government and public bodies, focused on what services are needed and moving funding around to how they are best delivered.
- Concerns were raised by local authority representative bodies regarding the potential for greater sharing of services across councils within what they argued was a complex structure. However, those local authorities who gave evidence highlighted that collaboration between neighbouring councils is occurring on shared services, systems and teams. They also noted further

[3] During discussions at the Committee's Business Planning Day, the Committee heard that in some countries the use by government and public bodies of algorithms and AI in automated systems, including benefits, had been found to discriminate against particular sections of society, with disastrous results for individuals. The need for more transparency around when and where public bodies are using AI and algorithms was also discussed to ensure more trust and reliability in these systems.

potential to create single national functions that serve all authorities, e.g., for rates collection and public analysis, as well as on progressing a single island authority.

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

32. On 28 September, the Auditor General for Scotland (AGS) published a briefing paper on Investing in Scotland's infrastructure, which highlights that "in reforming the public estate, the Scottish Government should consider how all buildings can be used to best support the transformation of services as well as making savings and reducing the size of the estate". In the news release accompanying the briefing, the AGS states that "better data on the condition, occupancy and cost of the wider public estate is needed to ensure buildings are used more efficiently as part of Scottish Government plans to reform public services". The briefing adds that "clear and effective leadership will be needed to carry out this reform at the scale and speed required".

33. This briefing also states that the Scottish Government no longer expects to have enough money to deliver all its planned £26 billion investment in public sector infrastructure, due to a combination of reduced capital budgets, higher costs and increased maintenance requirements. It highlights that "growing the economy and delivering high quality public services relies on infrastructure like roads, railways, hospitals and other buildings", however the Scottish Government is now having to take difficult decisions to prioritise its capital funding, including pausing or stopping some planned projects. The AGS further notes that "it is not always clear how the Scottish Government is directing funding to [its] three infrastructure investment priorities, or how they will contribute to reducing greenhouse gases".

Pre-budget 2024-25 scrutiny

34. This year, the Committee agreed to focus its pre-budget scrutiny on the sustainability of Scotland's finances in both the short and longer-term, reflecting the broader strategic and societal challenges highlighted in the SFC's Fiscal Sustainability Report, the limited capital expenditure available, and the impact of financial pressures on the delivery of both national outcomes and climate change targets.

35. This 2024-25 pre-budget scrutiny aims—

- to develop a greater understanding of, and to scrutinise, the Scottish Government's plans to address the financial pressures on the Scottish Budget 2024-25 and beyond,
- to establish how the Scottish Government balances its short and long-term financial planning and to identify any improvements in this area,

- to influence the 'refresh' of the government's multi-year spending plans for resource and capital to 2026-27, to be published alongside the Scottish Budget 2024-25, and
- to understand how the financial pressures might impact on the delivery of national outcomes and climate change targets, both in the short and longer-term, and to identify steps that the Scottish Government could take to alleviate these impacts.

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

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

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

Evidence sessions

39. Official reports of the inquiry evidence sessions will be published on the Committee's web pages once available.
40. The Committee heard from academics and the Fraser of Allander Institute on 19 September during which the following issues were raised[4]:

- Lengthy lead-in times from the proposal of new taxes to implementation, as consultation and development of administration processes and methodologies for collection are required. New taxes are therefore not a viable option for the next financial year.
- Complexity of the UK and devolved tax systems. Anomalies arising, including with National Insurance, should be resolved rather than considering changes to the higher tax rate. Another option would be to grow the tax base through increasing the number of jobs below the top rates.
- 5% of income taxpayers in Scotland pay 40% of income tax raised in Scotland, so any proposed changes affecting these taxpayers should be considered carefully.

[4] The Committee heard from David Bell (Professor of Economics at the University of Stirling), David Heald (Emeritus Professor and Honorary Senior Research Fellow, Adam Smith Business School at University of Glasgow), and João Sousa (Deputy Director of the Fraser of Allander Institute).

- A more strategic approach to taxation should be taken. This should include taxing carbon to help meet net zero targets, though it was recognised that this could affect people in rural and urban areas differently.
- Proposals to change multipliers in council tax do not go far enough, with property values used still based on 1991 values. Questions about why re-evaluation has not taken place should be asked and a cross-party approach to reform agreed.
- Decisions by the Scottish Government to spend on areas that do not result in equivalent UK spend, such as some social security payments and universal provision, divert funds from ‘core’ spend on health, education, and local government, thereby eroding funding for public services.
- There is paralysis in addressing demographic challenges across the UK.
- More prioritisation is needed within the Scottish Government. When a new policy is announced, associated costs should also be provided. It was suggested that health spending may not automatically rise along with the number of older people. More broadly, greater transparency over spend is needed, alongside multi-year budgets and medium to longer-term planning. One witness suggested that local government, which is in “severe difficulty”, and prevention, should be prioritised.
- Scotland must retain those people who have been educated in Scotland to enhance the growth of the economy, make start-ups easier and provide business confidence. Increased productivity is also needed.

41. The Committee also heard from third sector organisations, public bodies and thinktanks[5] at a round-table evidence session on 19 September. Issues raised included the tax system being too dependent on income taxes and the need for a ‘serious conversation about other taxes”. It was suggested that the Scottish Government should “be brave” in prioritising spend in the longer-term to meet its climate change and poverty targets, and deprioritising other spend “for now”. Some witnesses were reluctant to revisit means testing, as they felt there was limited data on which to target spend. Health benefits of reducing spending on roads (other than for safety measures and parking charges) were highlighted, including road safety with quieter roads, reduced air pollution, and increased activity, which could save money for the NHS. More transparency over what is being spent is also needed, including around how prevention can save money in the long-term. Focus is needed on attracting talent and investment to Scotland, driving green economic growth and a high skills economy, with career pathways for all. More people should be supported into work, including older people. Witnesses agreed that multi-year budgets would maximise efficiencies, reduce staff time and enable proper evaluation of outcomes, and that spending reviews need to provide more detail than level 2 figures.

42. The Committee heard from the Federation of Small Businesses (FSB), the Scottish Hospitality Group (SHG) and Scottish Financial Enterprise (SFE) on 26 September. It was highlighted that confidence in and amongst small businesses is low due to economic uncertainty and the cost-of-living crisis. In general, Scotland does not take the opportunity to convert small start-ups into larger scale

[5] The Committee heard from Age Scotland, Children in Scotland, IPPR Scotland, Living Streets Scotland, The Poverty Alliance, Public Health Scotland, and Universities Scotland.

businesses as quickly as it should. The FSB called for the Small Business Bonus Scheme to be retained and a small business impact assessment to be implemented. Variation across local authorities, the burden of regulation and the cluttered landscape of business support were highlighted as particular issues for small businesses. The Committee also heard that women-led businesses tend not to apply for procurement contracts and external financing and that the Scottish National Investment Bank should consider more investment in women-led businesses. At one end of the population, more work is needed in schools in relation to entrepreneurship, while more incentives should be put in place to encourage older people to return to the workforce. New national outcomes were proposed in entrepreneurship and procurement. The SHG highlighted closures in the hospitality sector in light of the pandemic and the cost-of-living crisis and that many in the sector are still focused on ensuring survival. Nevertheless, hospitality businesses are keen to grow rather than to just contract. The SFE noted that, while Scotland is outperforming the rest of the UK in financial enterprise, it does not rank as highly in terms of infrastructure. The broader business environment, including infrastructure, economic certainty and the tax regimen tend to have a higher impact on investment than the provision of business funding. As described by the SFE, Scotland's "ability to support businesses will be key to the economic strategy". The education sector should be better aligned with the needs of the economy and focused on those sectors that will grow the economy over the next few years. Witnesses agreed that the public body landscape is too cluttered and confusing, there is too much bureaucracy for businesses, and a public debate is needed on taxation policy and spending priorities.

43. Following these evidence sessions, the Fraser of Allander Institute published a briefing on 27 September, looking at how much revenue would be raised through an additional band of Scottish Income Tax between the higher and top rates, as proposed by the Scottish Trades Union Congress (STUC) and IPPR Scotland. STUC's proposal would levy a 44p rate on earnings between £75,000 and £125,140 and, according to STUC estimates (not taking into account behavioural change) would raise £200m a year. IPPR Scotland's proposal would levy a 45p rate on earnings between £58,285 and £125,140 and was estimated by IPPR to raise £257m a year, again, without accounting for behavioural change. By employing a similar method to that used by the SFC in their policy costings, FAI's analysis shows that "about a third of the tax yield is likely to be lost through behaviour", 30% in the IPPR Scotland proposal and 36% in the STUC proposal. The FAI states that—

> "Our best estimate is that the STUC proposal would raise £56m in 2024-25 after accounting for behaviour, and would be paid by around 141,000 people (5% of those with any Scottish Income Tax liability).";
>
> "In the case of the IPPR Scotland proposal, revenues raised would be larger – both because the band starts at a lower level and because the new rate would be higher. We estimate that it would raise around £161m in 2024-25, and be paid by 234,000 people – roughly 10% of those with Scottish Income Tax liabilities."

Next steps

44. The Committee will consider a draft report, in private, in relation to the sustainability of Scotland's public finances and public service reform at its meeting on 31 October. This report is expected to be published in early November.

Committee Clerking Team
September 2023