Finance and Public Administration Committee
26th Meeting, 2024 (Session 6), Tuesday 17 September 2024
Pre-Budget Scrutiny 2025-26 - Managing Scotland's Public Finances: A Strategic Approach

Purpose

1. The Committee is invited to take evidence from the following witnesses in relation to its inquiry into Pre-Budget Scrutiny 2025-26 – Managing Scotland's Public Finances: A Strategic Approach.

   Round-table session
   - Allan Faulds, Senior Policy Officer, Health and Social Care Alliance,
   - Alice Telfer, Head of Business Policy and Public Sector, Institute of Chartered Accountants Scotland,
   - Euan Lochhead, Architect, Retrofit Coordinator, North East Scotland Retrofit Hub,
   - Lewis Ryder-Jones, Advocacy Advisor, Oxfam Scotland,
   - Michael Kellet, Director of Strategy, Governance and Performance, Public Health Scotland,
   - David Melhuish, Director, Scottish Property Federation,
   - Dave Moxham, Deputy General Secretary, Scottish Trades Union Congress, and
   - Heather Williams, Training Lead, Scottish Women's Budget Group, Women's Economic Empowerment Project.

The inquiry

2. The Committee has agreed to focus its Pre-Budget 2025-26 scrutiny: Managing Scotland's Public Finances: A Strategic Approach on the following three key areas—

   - Progress with the Scottish Government's public service reform programme,
   - The Scottish Government's approach to taxation, including what its Tax Strategy should include and how potential behavioural responses impact business and individuals, and
   - How the Scottish Government is using its capital expenditure to achieve innovation, productivity, and growth.

3. As part of this inquiry, the Committee is also considering whether the First Minister's four priorities (set out below) are the right priorities for the Scottish Budget 2025-26—

   - Eradicating child poverty,
   - Growing the economy,
   - Tackling the climate emergency, and
   - Delivering better public services.

4. The Committee's call for views ran from 10 June until 12 August 2024 and received 44 submissions. The questions asked in the Committee's call for views can be found at Annexe A. SPICe has produced a summary of written evidence to support the inquiry.

5. To inform its Pre-Budget 2025-26 scrutiny, the Committee held an engagement event with young people and business organisations in Dundee on 28 August 2024, with the aim of hearing views on what devolved taxation and spending policies would best ensure Scotland retains more of its younger working age population. Following a discussion, participants were asked to vote for their three main priorities, the results of which can be found at Annexe B. The Committee held a fact-finding visit to the School of Life Sciences at the University of Dundee on 29 August to discuss opportunities to achieve innovation, productivity, and growth, as part of its business planning day.

Scottish Budget 2025-26: context

Future publications

6. The Chancellor of the Exchequer has confirmed that the UK Government's 2025-26 Budget will be published on 30 October 2024 and that a multi-year Spending Review will conclude in Spring 2025 "to embed mission-led government and transform public services".

7. Discussions between the Committee and the Scottish Government are ongoing regarding the publication date of the Scottish Budget 2025-26. The Cabinet Secretary for Finance and Local Government, in a letter to the Committee dated 20 June 2024, confirmed that the Scottish Government will publish a final Tax Strategy alongside the Scottish Budget 2025-26. In her letter of 23 August 2024, she indicated that "given the announcement of a UK Government multi-year Spending Review, due to conclude in the Spring, it is my intention not to publish a Medium-Term Financial Strategy (MTFS) alongside the 2025-26 Budget". She went on to say that "it is instead my intention to return to the usual schedule for the MTFS and publish a full MTFS in good time ahead of the Budget 2026-27; recognising the precise timing will depend on the timing of the UK's multi-year Spending Review". It is currently unclear whether the Scottish Government's Investment Infrastructure Plan pipeline refresh or its Pay Policy for 2025 will be published alongside the Scottish Budget 2025-26.

8. The Committee is awaiting the Scottish Government's second update on its public service reform programme, after publication was delayed from May when the UK general election was called. The Committee has asked for this to be provided as early as possible to inform its Pre-Budget 2025-26 Scrutiny.

Economic and fiscal developments

9. The Committee heard evidence from the Scottish Fiscal Commission (SFC) on 3 September 2024 in relation to three reports it had published on 27 August 2024 – a Fiscal Update, Forecast Evaluation Report (FER), and Statement of Data

Needs 2024 (SDN). Its Fiscal Update, intended to support Parliament's Pre-Budget scrutiny, highlights the following economic and fiscal developments since its December 2023 forecasts—

- The overall economic context for 2024-25, including Gross Domestic Product (GDP) "is broadly in line with our December 2023 forecast", while Consumer Price Index (CPI) inflation fell back to the 2% target in 2024 Q2, "around a year earlier than we expected in December 2023".
- Latest Real Time Information data shows that Scotland's earnings growth in the first part of 2024-25 has slowed and is now similar to the UK average, following a period where "tighter labour market conditions in Scotland" had pushed up Scottish earnings relative to the UK.
- Latest data relating to real disposable income per person show an increase in 2023-24, mainly as a result of lower inflation, following a record fall in 2022-23. The SFC suggests, however, that "the outlook in the near term remains challenging as the downward pressure from higher prices and the recent period of higher interest rates may continue for some time".
- Statistics showing annual productivity growth in Scotland averaged 0.6% from 2011 to 2023 compared to 1.7% from 1999 to 2010. In December 2023, the SFC forecast annual productivity growth of 1.1 per cent by 2028-29, broadly in line with the OBR's forecast for the UK, with the underlying assumption that productivity growth in Scotland and the UK "will remain subdued and will not return to the pre-global financial crisis average".
- An 'economic performance gap' in Scottish income tax revenues of £624 million in 2022-23, once taking account of different policy choices in Scotland. The SFC states that, "in addition, the latest data suggests Scottish earnings growth is slowing relative to the UK, meaning the period of catch-up in Scottish income tax revenues may be coming to an end in 2024-25".

10. The SFC also comments on the recently published outturn data as follows—

- 2022-23 "was a relatively positive year for growth in Scottish income tax revenues, with the provisional income tax net position reaching £257 million". As this net funding position is higher than the projected negative £190 million when the 2022-23 Scottish Budget was set, there will be a positive reconciliation of £447 million applied to the 2025-26 Scottish Budget. The SFC explains that this figure "is less positive than the £732 million we expected in December 2023", and that this reduction is "mostly because of revisions in historical income tax data, which have lowered Scottish revenues relative to UK Government revenues". Income tax forecasts from the OBR and SFC (which are published alongside the UK Budget on 30 October 2024) will provide a more complete picture for income tax funding in the 2025-26 Scottish Budget.
- Social security spending in 2023-24 was £5.3 billion. The SFC estimates that spending exceeded the Block Grant Adjustment (BGA) funding by around £0.9 billion and that this gap will grow to £1.1 billion in 2024-25 and £1.5 billion in 2028-29.

11. The SFC's Fiscal Update further highlights that "since December 2023 there have been no significant confirmed changes in the Scottish Government's funding, but the pressure on spending has increased with public sector pay offers in Scotland now coming in higher than the pay policy published in May 2024", adding "there is significant uncertainty on the level of funding the Scottish Government will receive from the UK Government ahead of the UK Budget" on 30 October 2024. The SFC highlighted that the total public sector pay bill for 2023-24 was around £25 billion, over half of Scottish Government resource spending, and that the public sector in Scotland accounts for 22.6% of total Scottish employment compared to 17.6% for the UK overall. The SFC further suggests that—

> "If a Budget is set based on pay assumptions which are lower than those that materialise, this creates challenges with in-year management of the Budget, requiring the Government to reduce its planned spending on services. The recent emergency spending controls the Scottish Government has put in place for 2024-25 are the result of those challenges".

12. The SFC notes that "policy commitments the Scottish Government has made, such as the council tax freeze in 2024-25, social security spending and more generous pay deals in Scotland contribute to the growing pressure on the Scottish Budget". It also repeats a call made in its December 2023 forecasts for "the Scottish Government to plan its Budget over the short, medium, and long-term".

Scottish Government's Fiscal Statement

13. On 29 July 2024, following a public spending audit 2024-25, the Chancellor announced a series of measures aimed at alleviating a forecast overspend of £21 billion above the resource departmental expenditure limit totals set by HM Treasury in the UK Spring Budget 2024.

14. The Cabinet Secretary then, in a letter to the Committee dated 27 August 2024, stated that she is "working with my Cabinet colleagues to agree the necessary actions to reduce expenditure and ensure our finances are on a sustainable footing". She went on to say that "further to this, additional measures are now necessary following the UK Treasury's recent audit of public spending and lack of clarity over whether their decision to deliver Pay Review Body recommendations will be fully funded". The Cabinet Secretary highlighted the Scottish Government's decision to replicate the UK Government's decision to restrict eligibility for the Winter Fuel Payment to older people and that "the Scottish Government has also introduced a set of spending controls with the intention of further reduction spend in 2024-25".

15. Following her Pre-Budget Fiscal Statement in Parliament on 3 September, the Cabinet Secretary wrote to the Committee setting out further reductions and reprioritisation of spending which, alongside implementation of emergency spending controls, would help "to balance the 2024-25 Budget". These measures, she explains, are necessary to fund the public sector pay bill, demand-led activities, and a significant health and social care backlog. The letter

notes that "in total up to £500 million savings measures have been taken" across portfolio areas, including reintroduction of peak train fares, not progressing a pilot on concessionary fares for asylum seekers, and restrictions on recruitment, overtime, travel, and marketing across the Scottish Government. The Cabinet Secretary also plans to utilise up to £460 million of ScotWind revenue funding. The measures taken therefore total up to £1 billion in-year changes. A full breakdown of the savings can be found in the Annexe to the Cabinet Secretary's letter.

16. In its immediate response to the Cabinet Secretary's announcement of in-year spending cuts, the Institute for Fiscal Studies (IFS) notes that "the last few years have seen the Scottish Government increase public sector pay, and roll out new, more generous social security benefits", which "reduce the amount available for other areas of spending and add to budgetary pressures". The IFS adds that "more difficult decisions are likely next year and beyond given the difficult fiscal outlook", adding that "the Scottish Government should use its forthcoming Budget and subsequent Scottish Spending Review to be clear about priorities – and which areas will see cuts – in order to reduce the need for in-year cuts, which are often more damaging". In its blog, Filling in fiscal cracks … again', SPICe also notes that "this is the third year in a row that the Scottish Government has made in-year changes to the Budget passed by Parliament just a few months previously", adding "it may also not be the end of the story", with some pay deals still to be settled.

17. Writing in the Holyrood Magazine, Professor Mairi Spowage, Director of the Fraser of Allander Institute (FAI), highlights the Scottish Government's decision not to publish a public sector pay policy alongside last year's budget "due to uncertainty about funding". She suggests that "in order to put any sort of budget together, the Scottish Government must have assumed something about how public sector pay would change in 2024-25", adding "so, not publishing a public sector pay policy essentially means that they were not being transparent about what was being assumed". The Scottish Government's Pay Policy 2024 was published in May 2024, with assumptions for "an effective 2.3% pay increase for the full year" for central government. Professor Spowage notes that "given the lack of transparency, we're not sure if the pay policy is in line with the assumptions made at the budget".

Oral evidence

18. On 10 September 2024, the Committee took evidence from Audit Scotland, Professor David Bell from the Royal Society of Edinburgh, and Professor David Heald of the University of Glasgow, when the following issues were discussed—

- Consideration should be given to what the tax system should look like in 10 years' time and how devolved taxes fit into a UK system. The UK Government should be asked to take the lead on looking "at the whole system" including anomalies with marginal tax rates.
- The more information regarding potential behavioural change the better to inform Scottish Government decisions on tax policy.

- Lack of progress with council tax reform "reflects badly on the Scottish Parliament". Council tax is now inefficient and inequitable.
- Governments in recent years have opted to cut capital spend in times of financial pressure rather than reduce 'day-to-day' spending. However, capital spend is essential to grow the economy and productivity and attract private investment. Better medium- and longer-term planning is required to maximise capital investment. Declining capital investment in maintenance had also led to deteriorating public infrastructure.
- Governments need to "take people with them" in terms of net zero policy and there is a risk that they move too quickly with "schemes that aren't thought through" or where infrastructure is not in place to support them, for example, electric vehicles. This approach, it was suggested, undermines public confidence.
- The annual budget would benefit from an approach similar to mandate letters[1] to Cabinet Secretaries showing how the Scottish Government's priorities are met by overall portfolio spending. An honest conversation is also needed about the areas in which the Scottish Government is prepared to disinvest to balance in-year budgets.
- In terms of policy initiatives, the consequences of public sector pay policy on the Scottish Budget are not well-understood. Universal benefits can be difficult to roll back, as has been seen with the UK Government's decision to end universal Winter Fuel Payments.
- While the real effects of preventative measures can be difficult to assess, these measures are key to addressing long-term health and climate change challenges.
- One witness suggested "don't waste a crisis", and that the current fiscal constraints provide an opportunity to put in place a more strategic, coherent approach to managing Scotland's public finances.

19. On 10 September, the Committee also heard from the Federation of Small Businesses (FSB), Scottish Retail Consortium (SRC), and Universities Scotland, when the following issues were explored—

- Regulatory burden was highlighted as a significant area of concern for businesses. A large number of initiatives are currently being introduced or considered, such as the sugar and salt tax, disposable cups and alcohol restrictions. Early Government consultation with business is helpful to ensure new policies do not "come out of the blue" and policies reflect a "well-rounded viewpoint". An important factor for the FSB is having sufficient time to work through the policy implications before delivery.
- The 2024-25 Programme for Government not including any new regulatory initiatives was supported by the SRC.
- All three witnesses said they agreed with the Scottish Government's priority of 'growing the economy'. However, the FSB expressed concern that the proposed 'wellbeing national outcome' may suggest a move away from the priority of economic growth.

[1] Mandate letters were sent by the then First Minister to all Cabinet Secretaries in September 2023 setting out how priority commitments in his Policy Prospectus will be delivered. Following the appointment of the current First Minister, the status of these letters is unclear.

- Universities Scotland suggested that growing the economy will require the Scottish Government to "pivot back" towards funding university research and highlighted that there are now fewer opportunities to access this funding in Scotland compared to England. Universities can also "take the lead on seeking Innovate UK funds to help businesses innovate and access resource". Some universities are now having to be more selective about which projects they bid for if they consider the projects are "too expensive to deliver".
- A decline in the number of international students has diminished the funding available to universities. The visa regime makes a distinction between postgraduates and staff, despite students often moving into the workforce. Visa restrictions on dependents has had a significant impact on numbers of international students and potential staff who are now looking globally for opportunities.
- The SRC and FSB said that they continue to press for small business reliefs in line with those in place in England and Wales.
- The SRC suggested that an additional principle of 'competitiveness' should be added to the new Scottish Government's Tax Strategy.
- As with last year, the SRC continue to argue that costs can be saved through government reform, rationalisation of the public sector landscape and the sharing of back-office functions.
- Asked whether reliefs should be targeted, the FSB said means testing could be used to "target those businesses who are really struggling".

Written submissions from witnesses

20. Written submissions received are available on the Committee inquiry webpages. Key issues raised in the submissions of those witnesses giving evidence on 17 September are set out below.

Health and Social Care Alliance

21. In its written submission, the Health and Social Care Alliance (ALLIANCE)[2] said that it "generally agrees" with three of the Scottish Government's four priorities, however, it believes that the priority of 'growing the economy' "represents a step backwards in the Scottish Government's approach to the economy". It supports "alternative approaches to the economy and budgeting", including the wellbeing economy, care economy, gender budgeting and human rights budgeting, and suggests these are complementary concepts "and offer useful lenses through which to view Scotland's economy".

22. On taxation, the ALLIANCE argues that the Scottish Government should develop an approach to taxation and revenue raising that works towards delivering on its obligations to realise human rights, reduce poverty and tackle climate change … making use of national level taxes, including income tax, to the fullest extent possible". It notes that council tax reform is "long overdue" and argues that "it is essential that local revenues are sufficient to fund adequate [social care]

[2] The national third sector intermediary for health and social care

provision". The ALLIANCE supports the Scottish Child Payment and suggests that "going forward, the Scottish Government should continue to uprate the SCP as necessary, ideally at a rate above inflation when it has the resources to do so". It further highlights "a clear need to review the adequacy of disability payments".

23. The ALLIANCE goes on to say that "it is difficult to assess the progress on public service reform due to limited transparency from the Scottish Government about its plans and actions" and "strongly recommends" that the third sector is included as "an equal partner" in reform where appropriate.

Institute of Chartered Accountants Scotland

24. The Institute of Chartered Accountants Scotland (ICAS), in its submission, argues that longer-term planning "offers greater flexibility for managing challenges, meeting/balancing future needs, managing capital expenditure requirements and understanding how well priorities are being delivered". It suggests that the Scottish Government "needs to make Scotland an attractive place to live, work, and do business (from birth to death)", and that "inward investment is important to create new technologies, products, services (including those we can export) and better paid jobs".

25. ICAS go on to say that it is prudent, given the current financial situation, to "challenge early and ensure evidence is robust to help rein in expenditure which may achieve a stronger impact elsewhere, or to illustrate when weaknesses/gaps exist and address promptly". On public service reform, ICAS suggests that "the strategic landscape still appears cluttered", improving productivity "is a key gap in the strategy" and reform may need investment to bring longer term benefits.

26. ICAS notes that "progressive rates of tax are a good and worthy idea in principle …, however, at a certain point people will compare their tax cost to others in other jurisdictions" and suggests that "people need to see that the tax they are paying is fully accounted for and can be seen to benefit society". It further questions "how stewardship and value for money can be achieved on capital expenditure if decisions are taken on a short-term basis", adding "this is not a sustainable position and risks creating more costs".

North East Scotland Retrofit Hub

27. The North East Scotland Retrofit Hub (NESRH)[3], in its submission, highlights that "new-build benefits from zero-rate-VAT which can mean that to demolish and rebuild a building can be more cost effective than retrofit, and rebuilding a building can be more cost-effective than retrofit and refurbishment". However, new-build construction "emits far higher carbon emissions" and NESRH is

[3] The North East Scotland Retrofit Hub is a community led cooperative organisation "that is working to accelerate the pace of transformation in the built environment". It supports the Scottish Government's Heat in Buildings Strategy and are helping to deliver it by raising awareness of retrofit, developing the retrofit supply chain in North East Scotland and striving to have a retrofit plan for every home in that area.

therefore calling on the UK Government to introduce VAT relief for retrofit and renovation. It further calls for taxation on high-carbon materials used in construction such as cement and petrochemical insulation materials. NESRH argues that funding for energy efficiency measures should be adequate to ensure quality, avoiding instances of incorrect installation of insulation which have led to ineffective insulation measures and un-mortgageable dwellings. A much stronger focus is needed on "reducing the amount of energy that is wasted in leaky, uninsulated buildings" to eliminate fuel poverty and deliver health benefits, lower emissions, and more resilient buildings.

28. The submission further suggests that the Scottish National Investment Bank (SNIB) should invest in Regional Retrofit Hubs "that can develop a local supply chain for decarbonising the built environment, provide training for local contractors, provide quality assurance on existing energy efficiency programmes …, and start … developing place-based transition models to decarbonise buildings on a street-by-street basis". NESRH also notes that some funding is heavily focused on renewables such as solar photovoltaics and heat pumps "which has led to traditional, uninsulated buildings receiving heating systems that are potentially oversized and likely to suffer additional wear and tear as a result". Funding should instead be focused on improving the fabric of buildings.

Oxfam Scotland

29. Oxfam Scotland, in its submission, states that it is "broadly supportive of the First Minister's four stated priorities for Scotland". However, it argues that growth in areas such as renewables or care are necessary, "but a catch-all pursuit of economic growth is not a legitimate goal and even risks undermining the First Minister's wider priorities". It goes on to argue that "significant additional public spending is required" to achieve the other three priorities, to fund "transformational levels of investment in social care and childcare, as well as wider public services", scaling up a person-centred approach to employability support, and "massively increasing investment in fair measures to reduce emissions in line with legal targets". Oxfam Scotland argues that an improved tax system is required to deliver this increase in spending.

30. In the short-term, it argues that up-to-date information on the value and ownership of property and land in Scotland is needed, along with "concrete plans to find ways to tax wealth better and being even bolder on income tax as the key existing devolved lever to raise additional revenue". These "interim steps", it argues "must quickly act as a springboard for a wider set of fair tax reforms". It goes on to suggest that the Scottish Government's Tax Strategy "should commit to a tax system in Scotland that proactively, strategically, and consistently enables significantly more public spending on people, public services, and green infrastructure …, robustly redistributes income and wealth [using] a mix of fairer taxes, [… and] shapes behaviours in socially and environmentally positive ways". Oxfam Scotland also argues that the Tax Strategy should be used to "kick-start the replacement of the unfair council tax", freezing or reducing income tax thresholds in the higher bands and considering adding new bands to make income tax more progressive. Other proposed tax measures are also set out in the submission, including new wealth taxes at national and local level, options to

raise additional revenue to deliver climate action, and new or reformed local taxes, including through non-domestic rates.

Public Health Scotland

31. In its submission, Public Health Scotland (PHS) outlines three recommendations for the Scottish Budget which, “if implemented across the public sector, could help to reduce health inequalities”, as follows—

- **Shared focus on prevention**: to help reduce short-term demand and free up resources for future investment. PHS notes “a tendency towards more reactive, short-term responses” and suggests that a shared focus could be supported by a “new ‘framework made up of core metrics of success, embedding these across public services”.
- **Invest in prevention**: supporting reform by defining prevention spend and establishing a new preventative investment category of public expenditure. PHS highlights that “more than a quarter of all deaths in Scotland are avoidable [and] Scotland’s population is expected to fall by 2043 but the level of illness is expected to increase by 21%.” A collective focus on prevention, particularly primary prevention, it argues, is important to reduce demand on public services and put them on a more sustainable long-term footing.
- **Measure progress and accountability**: to “ensure we know what works and focus on whole system accountability for improved health and wellbeing and prevention”. PHS suggests that “whether through the National Performance Framework or other means, a focus on shared outcomes has the potential to improve scrutiny and accountability, ensure a stronger focus on prevention, enable adoption of a futures focus, increase policy coherence, promote ownership, and improve accessibility”.

32. The submission further notes that PHS is partnering with Police Scotland and the University of Edinburgh, co-locating at the new Edinburgh Futures Institute, with the ambition of using “data, evidence, expertise, and collaborative leadership to drive forward preventative approaches in areas such as education and justice”.

Scottish Property Federation

33. The Scottish Property Federation (SPF), in its submission, argues that “unless the Scottish Government maximises its ability to leverage in economic development to boost the economy and return to sustainable levels of growth, the government’s wider objectives are unlikely to be achieved”. It expresses particular concern regarding the reduction in capital investment, noting that “the continued uncertainty and lack of confidence in the Housing Bill has contributed to a 54% decline in construction activity in this sector over the July 2023 to July 2024 period”. The SPF argues that “it is still possible for the Scottish Government to amend its Housing Bill proposals in order to save an investible build to rent industry”. Concerns are also highlighted in relation to “sudden large cuts to [… the] housing budget”, “a growing accumulation of policies that add significant costs to the development sector”, including proposed levies on infrastructure and building safety, policies relating to Passivhaus and zero

carbon, and “persistent challenges for businesses in attracting and retaining the staff they need to grow their businesses”.

34. The SPF welcomes the Deputy First Minister’s recent announcement of a new fund to encourage modern innovative manufacturing developments, which it believes “will lead to wider economic and financial benefits for Scotland”. It observes “significant resource shortfalls” in the public sector and, in relation to taxation, “we are in a dangerous position of needing to charge more on relatively few shoulders which is gaining helpful yet not game-changing amounts of revenue”. The Tax Strategy, it suggests should continue to be based on progressive principles and it also urges the Committee to recommend the abolition of the “three-year Land and Buildings Transaction lease renewal tax/repayment[4]” which, it notes, “continues to perform poorly”. It further argues that the Scottish Government “should incentivise the growth of a supply chain to support not just the renewables industry itself but the huge requirement for retrofit and develop new renewables technologies that will be needed to achieve a net zero transformation in the real estate sector”.

Scottish Trades Union Congress

35. In its submission, the Scottish Trades Union Congress (STUC), states that it supports the First Minister’s four priorities, however, it highlights “that the quality and distribution of economic growth is crucial” in delivering his other three priorities. It argues that each of the priorities require significant investment and refers to its November 2023 paper, Raising Taxes to Deliver for Scotland, which “outlines several ways in which Scotland’s tax levers could be used to raise £3.7 billion worth of investment […,] enough to fund 82,000 workers”. The most significant of these reforms, it suggests, relate to replacing council tax with a property tax and introducing a local wealth tax. It notes that the Welsh Government is proposing regular five-year revaluations from 2028 and, “at a minimum, the Scottish Government – ideally with cross-party support – must follow suit”.

36. The STUC argues that progress with public service reform “has been limited due to a context of increased post-pandemic demand and reduced resource”, adding that “while the STUC is not opposed to reform to improve public services, reform should have an aim of strengthening public services rather than trying to ‘do more with less’.” It suggests that improvements could be made to make quicker progress and improve outcomes through “investment in the civil service, better social partnership structures, and devolution of financial power and responsibility to levels of government responsible for making decisions”.

37. It further notes that the Scottish Government “must use [Barnett] consequentials to increase its proposals for public sector pay, if we are to avoid industrial action spreading in the coming months”. In addition, it states that, expanding sectoral bargaining in low-paid sectors should be a priority for the Scottish Government “if

[4] An LBTT return must be submitted by the tenant at every third anniversary of the effective date of the lease and any additional LBTT paid or overpaid LBTT reclaimed. This is different to the position with Stamp Duty in England.

it … wants to improve productivity", and that investment is needed in "high-quality, publicly delivered, childcare", and in the NHS to tackle long-term sickness. Limited capital spending, it argues, should be prioritised towards "tackling climate change, while simultaneously reducing the cost of living".

Women's Economic Empowerment Project

38. The Women's Economic Empowerment Project[5], in its submission, notes general consensus amongst the group of women it spoke with that "on first reading, there is nothing in the [First Minister's] four priorities that you could disagree with". However, further discussion led to the view that the priorities are all "very nebulous and could be interpreted differently". They were also unsure how these would actually make a difference in the lives of disabled women. While there was agreement that "growing the economy should be a priority for the Government, there were questions about what this meant in practice and how this could be done in a way that was about sustainable growth which would benefit the people of Scotland".

39. The submission noted that decisions taken to address climate change can sometimes negatively impact on disabled people, with "little consideration of the needs of different groups", for example, the banning of plastic straws and moving to LED street lighting. While some measures have the potential to benefit those on low incomes, including reducing energy prices through investment in renewable energy, "this needs to be caveated with the fact that many disabled people live in unsuitable and inaccessible housing and do not have the means to undertake some improvements and adaptations that would enable them to take advantage of more environmentally friendly measures".

40. Focusing on improving Scotland's public services was felt to be an important priority. Given that disabled people, and women, are the single biggest users of adult social care, "investing in and improving provision is of vital importance to the group". It highlights that "too often public bodies work in silos or deal with things in isolation" and that "it is unhelpful to single out child poverty, as this fails to take account of household situations, and misses the opportunity to address poverty and inequality more widely".

41. The submission welcomes the proposal to add a care outcome to the updated National Performance Framework along with "the Government's commitment to recognising the important role that social care plays in the wellbeing of both individuals and wider society as set out in the National Care Service (Scotland) Bill". However, it argues there is an urgent need for this to be followed through in the budget decisions made at all levels of government, as well as investing in addressing barriers that prevent disabled people from accessing employment. On taxes, the group supports progressive taxation, but it was felt that there is a

[5] The Women's Economic Empowerment Project is a joint project between Glasgow Disability Alliance, Scottish Women's Budget Group, the Wise Centre for Economic Justice and the Women in Multiple Low-Paid Employment Project (University of Glasgow). The Project aims to develop an understanding of the Scottish Government Budget and economic policymaking processes and the role women can play in these. They held a workshop to discuss the Scottish Government's priorities which has informed this submission.

need to better communicate how taxes are used and the benefit that individuals and society receive from the taxation they pay.

Next steps

42. The Committee will continue taking evidence in relation to Pre-Budget 2025-26 scrutiny on 30 September.

Committee Clerking Team
September 2024

ANNEXE A

Managing Scotland's Public Finances: A Strategic Approach

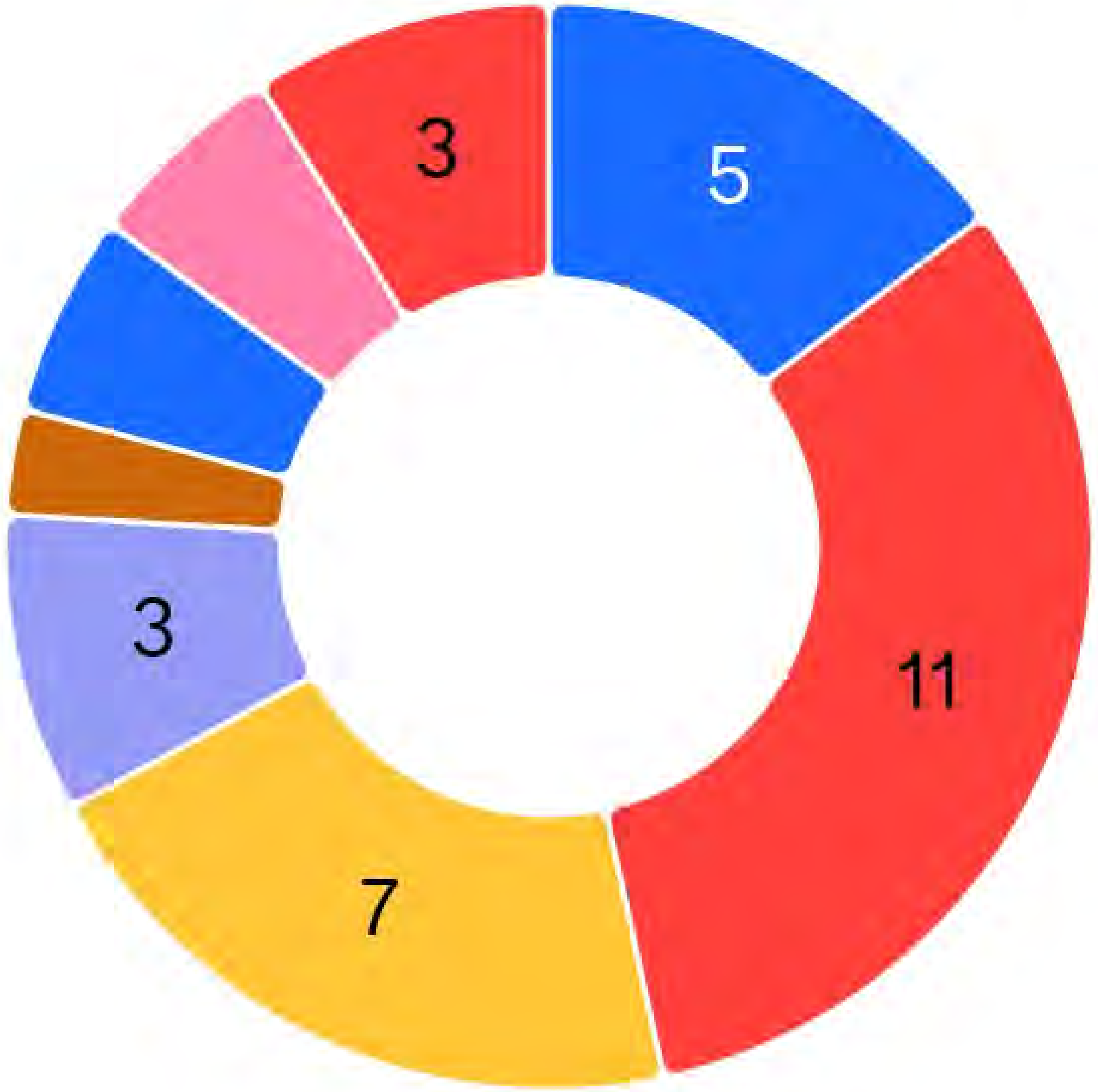
The Committee's call for views included the following questions—

1) Are the First Minister's four priorities the right priorities for the Scottish Budget 2025-26 and, if not, where should the Scottish Government focus its attention?
2) What taxation and spending decisions should the Scottish Government take to make most progress against each of the First Minister's four priorities, within the current financial climate?
3) What are the potential impacts of focussing budget decisions on these four priorities on those groups of society who traditionally experience inequality?
4) What progress has the Scottish Government made against its specific goals in relation to public service reform?
5) Are there any improvements that can be made to achieve faster progress with public service reform and improved outcomes?
6) The Scottish Government recently published its Public Sector Pay Policy 2024-25 which offers pay metrics above forecast levels of inflation. What are the implications of its multi-year framework on public sector bodies and on the Scottish Budget for 2025-26? And for the subsequent two years?
7) What elements should a new draft[6] tax strategy include to achieve such a tax system?
8) How should a new draft tax strategy address potential impacts of behavioural change on individuals, businesses, and the overall tax take?
9) What actions should the Scottish Government take to grow the tax base and increase labour market participation, productivity, and Scotland's economic growth?
10) What steps should the Scottish Government take, in its Budget, for 2025-26, to grow the economy by tackling the climate emergency?
11) Given the limited capital budget available, in which areas should the Scottish Government prioritise its capital spend in the Scottish Budget 2025-26 to deliver increased productivity, innovation, and growth?

[6] At the time of publishing the call for views the Scottish Government's position was to that it would publish a draft tax strategy rather than a final tax strategy.

Mentimeter

What devolved taxation and spending policies would best ensure Scotland retains more of its younger working age population?



5	Affordable housing
0	Better and faster public transport
11	Employment opportunities
7	Access to education (free tuition, non-university pathways)
0	Reputation (quality of learning)
3	Financial support as you grow (e.g. ISAs)
1	Universal services that are available and accessible (e.g. access top free dental care)
2	Sector-based incentives
2	Flexible pathways to work
3	Increased student support in schools and universities
0	Incentives for employers (via tax system)

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