

Deputy First Minister and Cabinet Secretary for Finance
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airson Ionmhas

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Finance and Public Administration Committee
The Scottish Parliament
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23 June 2023

Dear Kenny,

I am writing to you following my Committee session on 13 June, at which I agreed to follow-up on some specific points in more detail.

Updating Committee on four day working week pilot

The 2023-24 Pay Strategy maintains our commitment to a four-day working week public sector pilot to determine our future policy. We are working with a number of public bodies who have expressed an interest in participating in the pilot, and are seeking an expert partner organisation who will support public bodies participating in the pilot, assist with the pilot design and produce an evaluation report following the conclusion of the pilots. We anticipate that the pilot will begin later this year, and will provide further details in due course.

Confirmation of Government policy on size of public sector workforce

At the session, I committed to write to the Committee to set out the Government's policy with regards to the size of the public sector workforce.

The Resource Spending Review included commitments to hold the total public sector pay bill (excluding Local Government) at around 2022-23 levels whilst returning the overall size of the public sector (excluding Local Government) broadly to pre-COVID-19 levels. The overall aim was to ensure sustainable public bodies.

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Following further analysis and engagement in light of the inflationary shock that occurred in 2022 after publication of the Resource Spending Review and the impact this had on pay awards, our proposal on how we achieve a sustainable public sector workforce evolved and in the 2023-24 Budget, we set out that it is for individual public bodies to locally determine the target operating model for their workforces and to ensure workforce plans and projections are affordable within budgetary allocations in 2023-24 and in the medium term. This approach recognises the accountability of public bodies to deliver efficiently and effectively within their budget and that budget allocations are set to reflect our priorities.

Our Public Sector Pay Strategy for 2023-24 published on 22 March 2023, recognises that pay and workforce must, more than ever, be explicitly linked to both fiscal sustainability and to reform, to secure the delivery of effective public services over the medium term. It set out that bodies may need to consider the size and shape of the workforce to ensure affordability, alongside opportunities around, for example, digital reform, revenue generation, estates rationalisation and improved procurement and that where a reduction in workforce is required, we would expect this to be through natural turnover wherever possible given our on-going commitment to No Compulsory Redundancies.

Tax Advisory Group

With regards to the Tax Advisory Group, I noted at Committee that invitations to stakeholders would be sent out imminently, and I would provide more information to the Committee in writing. The group will build on the Scottish Government's inclusive approach to tax policy making and will be a key part of achieving our ambitions for Open Government. I hope it will become a long-term feature of how the Scottish Government engages on tax. I have now invited members drawn from a range of backgrounds including industry representatives, academics, trade unions and local government, but membership is not yet confirmed. I intend for the group to meet three times this year, with the first meeting of the group taking place in July. Further details regarding the group will be published at the end of the month. Once the membership is confirmed, I will provide a further update to the Committee.

Non-Domestic Rates (NDR)

At the session, I offered to write back and provide clarification on the drivers of the increase in NDR over the next three years. The independent Scottish Fiscal Commission (SFC) are responsible for forecasting the Non-Domestic Rates Contributable Amount. The forecasts are underpinned by modelling assumptions which are discussed with Scottish Government but do not pre-judge future Scottish Government policy, with NDR policies set annually as part of the Scottish Budget. The forecasts published alongside the Medium Term Financial Strategy indicate that revenues are expected to rise from £3,046m in 2023-24 to £3,437m in 2026-27 (an increase of 13%). Our interpretation of the forecasts is that this modelled increase is driven by the following modelling assumptions:

- Consistent with previous years, the SFC uses a CPI inflation forecast to model the poundage in future years, with modelled inflationary increases in poundage driving higher NDR revenues in cash terms over the forecast period. For instance the CPI forecast used for 2024-25 is 5.4%.

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- The SFC forecast assumes that a revenue neutral revaluation will take place in 2026 as scheduled. One traditional feature of revaluations is that revenues change over the course of a cycle due to the profile of appeal losses. This typically increases revenue in the first year of a revaluation (2023-24 and 2026-27) when few appeals have been resolved and reduces revenues in 2027-28 and 2028-29 as any successful appeals (from the ratepayers' perspective) are resolved in later years of the cycle.
- Contributable NDR revenue is forecast net of national reliefs such as the transitional relief policies linked to the 2023-26 revaluation cycle which are assumed to expire in 2025-26 as set out in the Budget 2023-24, thus increasing NDR revenues from 2026-27.
- The NDR forecast also contains a long-run assumption for growth in the tax base which increases forecast NDR income over the forecast period.

Fiscal Framework Review

We also discussed the Fiscal Framework Review at Committee, and I noted that a meeting with UK Government ministers is imminent. I will update Committee when I have substantive progress to report.

Budget 2024 – 25

Finally, as we look ahead I would like to set out some early thinking on the 2024-25 Scottish Budget. Work has commenced within the Scottish Government on planning the new Budget. While I regret that I do not have any update to offer on the UK Government's Autumn Budget Statement plans, it is important that we press ahead with our collective planning for the 2024-25 Scottish Budget. On the basis of the timing for the 2023-24 Scottish Budget which appeared to work well for both the Scottish Parliament and the Scottish Government, supporting increased time for scrutiny by the Parliament as well as allowing reasonable time for the Bill Royal Assent period, I am offering an early view on a potential date for us to consider on the new Budget this year – 14 December 2023.

I look forward to the Committee's consideration of this in due course and recommend that we aim to reach an agreed position on the date for the 2024-25 Scottish Budget in early September, ahead of the ten week notification period required for the Scottish Fiscal Commission.

I have copied this letter to the Scottish Fiscal Commission for information and I would like to take the opportunity again to thank you for the opportunity to appear at the Finance and Public Administration Committee, and for the scrutiny the Committee provides.

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