

## Finance and Public Administration Committee Pre-Budget Scrutiny 2025-26 SPICe Summary of Evidence

On 10 June 2024, the [Finance and Public Administration Committee launched a call for views to inform 2025-26 pre-budget scrutiny](#). The call for evidence closed on Tuesday 12 August 2024. The questions asked were as follows:

### Scottish Government priorities

In May 2024, the First Minister set out his four priorities to guide the Scottish Government's decision-making on policy and the budget.

He said his four priorities are:

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

**1. Are these 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?**

### Public service reform

In December 2023, the Scottish Government said in the first three years of its ten-year reform programme it must have made progress in a range of areas, including:

- agreeing a common vision and a clear set of goals for reform,

- developing a programme of work across the public services system to support long-term reform,
- ensuring strategic investment to sustain capacity for reform and disinvestment in areas that don't align with its vision and objectives,
- removing, wherever possible, any identified barriers to reform,
- that reform actions are making progress against more qualitative indicators of change, improvement, and success.

**4. What progress has the Scottish Government made against these 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 multiyear framework on Public Sector bodies and on the Scottish Budget for 2025-2026? And for the subsequent two years?**

## **Taxation**

The Scottish Government plans to publish a draft tax strategy alongside its Medium-Term Financial Strategy.

It established a Tax Advisory Group which first met in July 2023. Its purpose includes providing advice on:

“the development of a tax system that is fit for purpose, delivers sustainable public finances and supports high quality public services and a flourishing economy”, building on the [Scottish Government's Framework for Tax 2021](#).

The Scottish Government said:

“We want to build a tax system that works for everyone in Scotland, while allowing us to continue to deliver high-quality public services and keep our finances on a sustainable footing.”

**7. What elements should a new draft 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?**

## Climate emergency

The First Minister said that growing the economy will also be achieved through tackling the climate emergency by investing in green energy and infrastructure.

**10. What steps should the Scottish Government take, in its Budget for 2025-26, to grow the economy in this way?**

## Capital expenditure

The Scottish Fiscal Commission has forecasted that Scotland's capital budget is expected to fall by 20 per cent in real terms between 2023-24 and 2028-29.

**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?**

A total of 44 responses were received and this paper summarises them. It presents the evidence by broad theme covered in the questions – namely, Scottish Government priorities, public service reform, taxation, climate emergency and capital expenditure.

## Scottish Government priorities (Questions 1-3)

The Scottish Government's priorities of eradicating child poverty; growing the economy; tackling the climate emergency and delivering better public services are broadly supported by respondents.

The Women's economic empowerment project said that "there is nothing in the priorities that you could disagree with," but that they were "all very nebulous and could be interpreted differently." They also argue that the priority of child poverty is too narrow and that "without understanding the context within which that poverty exists could risk entrenching and exacerbating women's experiences of poverty, particularly for those who don't have children and are already experiencing deepening levels of poverty in Scotland."

The submission from the ALLIANCE was supportive of three of the four priorities, but felt the government's priority of "growing the economy" was "a step backwards in the Scottish Government's approach to the economy. The ALLIANCE are longstanding advocates for alternative approaches to the economy and budgeting. Beyond the wellbeing economy, these include the care economy, gender budgeting, and human rights budgeting. Although there is a slightly different focus for each of these concepts, they are complementary rather than competing, and offer useful lenses through which to view Scotland's economy." They conclude:

“We are therefore disappointed that the Scottish Government appear to have reverted to the traditional, and failed, pursuit of simple growth in GDP figures... There is also a clear tension between simply “growing the economy” and “tackling the climate emergency”, as has been demonstrated by the global failure to sufficiently reduce the extraction and consumption of fossil fuels in recent decades.

The ALLIANCE recommends that the Scottish Government explicitly re-commit to the wellbeing economy, and to economic growth that does not negatively impact on the climate, wellbeing, or human rights.”

The Fraser of Allander Institute make the point that the Council tax freeze in this year’s budget didn’t really support the stated government priorities as it introduced an “ongoing cost to local authorities as it permanently reduced the tax take given that tax rates are compounded on an annual basis, while only committing to giving compensation for one year. It was also not very progressive in terms of its effect on the income distribution, with most gains in cash terms going to the wealthiest households and pretty mixed results across the distribution.” They argue that:

Ultimately, the most important thing to come from the 2025-26 Scottish Budget will be to what extent the measures that are implemented will reflect these priorities. The priorities are broadly the same as last year – but given that decisions in the 2024-25 Scottish Budget did not necessarily chime with those priorities, a new approach will be needed to ensure that the situation is different this time around.

The Royal Society of Edinburgh (RSE) states that growing the economy is the most important priority and will underpin the ability to address the other three (Scottish Chamber of Commerce make similar point that public finances will grow if the economy grows). On the child poverty priority the RSE state there is a question as to the extent to which this “is best achieved via increasing benefit payments, such as the Scottish Child Payment, or for example, addressing the barriers parents face in securing gainful employment.”

“While policies such as child payment have certainly helped to address child poverty, concerns have been raised about the rising cost of social security, the sustainability of this with the pressure on public finances, and the increased tax pressure on middle-income earners. It is important that the government clearly communicates how they intend to address the key priorities, demonstrates what policy options are achievable and moves away from vague commitments.”

The Scottish Women’s Budget group were critical of the council tax freeze, arguing that it should be reformed rather than frozen. They refer to IPPR analysis which showed the

money for the freeze could have funded an increase in the Scottish Child Payment to £34.50 per week, which “would have lifted 10,000 children out of poverty.”

The Chartered Institute of Housing (CIH) Scotland argue that the key to meeting Scottish government priorities is investment in the Housing sector. Their submission sets out its view on how investing in housing can have a positive impact on eradicating child poverty; growing the economy; tackling the climate emergency; and delivering better public services.

Similar points are made in the submission by the Scottish Federation of Housing Associations who state that a “nearly 40% cut to the Affordable Housing Supply Programme has worsened the [Housing] crisis.” They continue:

- Our members need certainty over what government grant will be available if they are to build homes. At very least, clear multi-year spending commitments should be set out.
- Future-proofing the housing stock as we age, to meet varying needs and support independent living, is a fundamental part of preventing unnecessary health spend. We need to see adequate budgets for this, which have not been increased in some years.
- Adequately fund the social housing sector transition to net zero so the burden does not fall on social tenants and boosts the workforce.”

Existing Home Alliance Scotland agrees and calls for “focusing on durable solutions of eliminating poor energy efficiency” which is a “driver of fuel poverty”.

“To provide that certainty, the Scottish Government should:

- Commit long-term multi-year funding to energy efficiency and fuel poverty programmes, giving industry a visible pipeline of work that will, in turn, give confidence to investors. This would enable businesses to enter into multi-year contracts, delivering efficiencies and economies of scale. It would mean businesses could invest in growth, creating new jobs and training opportunities.
- Alongside this, the Scottish Government must deliver a robust Heat in Buildings Bill that gives a clear line of sight in terms of forthcoming regulations. Again, this will give industry the confidence to invest.”

They also call for steps from government which bring down upfront costs of retrofitting homes and switching to clean heat, and making it easier to pay through finance mechanisms which spread costs over time.

Likewise, the North East Scotland Retrofit Hub (NESFIT) submission calls for increased spending on energy efficiency measures, such as insulation, “and retrofit hubs, such as

NESFIT, should be funded to provide quality control in line with [PAS2035](#). Although the Home Energy Service is providing a welcomed service, there are instances of insulation measures being installed incorrectly, which has resulted in ineffective insulation measures and un-mortgageable dwellings. A retrofit hub can provide the much needed guidance that home owners need when talking to contractors and ensure that there are no unintended consequences.”

Universities Scotland argues that investment in universities’ research and innovation is a “proven avenue of generating opportunities for growth and in scaling-up established initiatives that lever the resources to grow Scotland’s economy.”

The submission from Culture Counts talks of an immediate “crisis” in the culture sector following “a lack of investment” over a decade (Culture Counts state that Scotland’s spend on culture as a percentage of GDP is one of lowest in Europe), “coupled with the impacts of Brexit, the Covid-19 pandemic, high inflation, and the cost-of-living crisis.” Given the immediacy of the funding crisis, this submission talks of available funds (they call for multi-year budgets and a target of at least 1% of the Budget spent on Culture) being prioritised to sustain the sector “to invest in core activity, maintaining the infrastructure and capacity building and in supporting our workforce of freelancers and staff.

“Discussion with the culture sector is vital to ensure future investment priorities are identified and directed strategically to where they are most needed, can have the most impact and should be taken in a way which prioritises the long-term health of all parts of the culture sector.”

The Scottish Retail Consortium argues that growth should be the “priority of priorities” and they specifically call for the scrapping of the “mooted business rate surtax on larger grocery stores”; “parity of business rates with England for medium-sized and larger commercial premises”; an easing of the “regulatory burden”, no more income tax increases and “ditch the consideration being given to making business rates relief conditional on payment of the 'real' living wage.” The Scottish Chamber of Commerce also wish to see a timetable for lowering the poundage for businesses to a “permanently lower level” and “faster restoration of the level playing field with England on the higher property rate.”

The Aberdeen and Grampian Chamber of Commerce notes that the “Scottish Government has only partial responsibility for business taxation” but calls for “the Scottish and UK Governments to work together to foster a business tax environment conducive to establishing and growing businesses, making Scotland as whole a more attractive location for domestic and global investors. As things stand, the tax burden on businesses is extremely high; this penalises success, reduces profitability and damages our global competitiveness.”

Whilst noting that many key taxes impacting the north east are reserved (for example Corporation tax) Aberdeen and Grampian Chamber of Commerce state that:

“On personal taxation we remain unconvinced that the Scottish Government’s approach is compatible with the objective of prioritising economic growth. The additional ‘advanced’ band and elevated rates for higher earners make it harder for employers to attract senior talent, exacerbating existing skills shortages.

The current way in which income tax-varying powers are used increases complexity and does little to strengthen Scotland’s reputation as a place to live and work, and may even be counterproductive in the longer term. Such tax varying powers could be used to encourage economic growth, and help Scotland gain a competitive edge, making Scotland a more attractive place for businesses to base their operations and locate their senior staff.”

The Scottish Chamber of Commerce also argue that the additional ‘advanced’ band “and elevated rates for higher earners adds complexity to the existing income tax rules.”

“It also makes it potentially more costly and difficult for employers in Scotland to attract and retain the specialist and senior talent they need. This risks firms weighing up whether to invest in Scotland or look elsewhere for a more competitive operating environment.

Our most recent research saw taxation overtake inflation as the leading external concern for Scottish firms, confirming that the overall burden is having a significant impact on job and investment decisions across the economy.”

Aberdeen and Grampian Chamber of Commerce also think the Scottish Government should prioritise early years childcare which would help improve women’s participation in the labour market “given that women comprise a substantial majority of primary carers”. Closing the gender pay gap “could add around £15 billion to Scotland’s economy.”

The Scottish Women’s Budget Group advocate use of “gender analysis as part of the development of programmes, policies and budgets.” On specific priorities they call for more investment in social care and investment in affordable and accessible childcare, which would remove a “major barrier to women being able to take on work.” The Women’s economic empowerment group project make similar points.

Paths for all, a walking charity wish the Scottish Government to make “targeted interventions improving infrastructure and programmes in more deprived areas to address health inequalities. This includes improved access to greenspaces, condition of paths and pavements, access to public transport, and the provision of accessible paths through inclusive design.”

They also call for fair funding for the voluntary sector and multi-year funding (as do other organisations, like the ALLIANCE).

Robert Martin, submitting as an individual citizen calls for the following government priorities in its upcoming budget:

- “Reduce the middle rate tax bands to align with rUK;
- Reform public services to minimise the number of existing public bodies and bureaucracy- with a salary cap on management posts;
- Cancel the recently established regulations on short term letting and licensing- they are already compromised and unworkable;
- Maintain the elderly winter fuel payments recently cancelled by the new UK government;
- Urgently renegotiate the fiscal framework which are unfair to Scotland and make the raising of revenues via higher tax rates a zero sum game;
- Reform planning so that there are bigger incentives to use or lose development permissions with extra charges on unused land with permission and genuinely empty properties.”

Local Government umbrella body COSLA’s submission fundamentally calls for the alignment of spending decisions with the Verity House Agreement. Similar messages come through in all the Councils who have submitted evidence. COSLA calls for progress on the local government Fiscal Framework which is core to the agreement. The “would provide Local Government with sustainable, long-term funding as well as greater fiscal empowerment and fiscal flexibilities which would allow councils to tailor spend to best meet local needs. Scottish Government policy and spending decisions that run counter to the VHA agreement, such as the council tax freeze and maintaining arbitrary teacher numbers, will prevent councils from achieving better outcomes for their communities.”

COSLA’s submission estimates that only 30% of local government funding is entirely subject to local flexibility “over the past few years” and 70% is directed spend.

“These protections and directions mean that cuts are then disproportionately focused on the limited areas where councils have discretion, often those services that are most critical to early intervention and prevention. Greater flexibility will empower Local Government to make spending decisions that are focused on outcomes, and both reflect the needs of local communities and progress shared priorities.”

Given the challenges in the public finances at these times, COSLA’s submission states that “Scottish and Local Government need to work more collaboratively to identify how



best to achieve joint priorities and to develop a shared public narrative which articulates the reality of what is and what is not possible with available resources.”

South Lanarkshire Council made the point that local authorities are key partners in delivering Scottish Government priorities and that “any asks of local government to further support these priorities needs the funding to accompany [it] as it cannot redirect any other core funding.” Orkney and Fife Councils make similar points around there being no “slack” in the system. Fife and Scottish Borders Council also call for multi-year budgets to enable more effective long-term planning and provide greater certainty for local authorities. This, they argue, would help Councils prepare for future challenges and ensure the delivery of essential services.

Scottish Borders also argue that long-term predictable funding should come with a “move away from directed spending and ring-fencing, providing councils with the flexibility they need to approach joint strategic aspirations in a way which befits their local circumstances.”

The Scottish Council for Voluntary Organisations (SCVO) “asks the Committee to recommend the Scottish Government 2025-2026 Budget commits to aligning the Scottish Government’s “Fairer Funding” principles with SCVO’s definition of Fair Funding, including:

- Longer-term funding of three years or more (i.e. beyond just increasing the number two-year grants as suggested by the Scottish Government).
- Flexible, unrestricted core funding, which enables organisations to provide security, plan effectively, and fulfil good governance requirements.
- Sustainable funding that includes inflation-based uplifts and full costs, including core operating costs.
- Funding that accommodates paying staff at least the Real Living Wage and pay uplifts for voluntary sector staff on par with those offered in the public sector.
- Accessible, streamlined, proportionate, and consistent approaches to applications and reporting, timely processing and payments, and partnership between the grant-maker and grant-holder.
- A comprehensive and proportionate approach to financial transparency around grant funding to support organisations and the public to understand spending decisions.
- Establish transparent delivery goals, timelines, and accountability mechanisms – such as reporting and stakeholder groups - to ensure progress on Fairer Funding can be scrutinised by the voluntary sector and Parliament.”

The STUC make the argument that you can’t have Scandinavian levels of public services with Scottish levels of local taxation, so suggest that tax reform (focused on

replacing the council tax and property tax and introducing a local wealth tax) should be undertaken to raise more resources for the budget.

The Child Poverty Action Group make a number of asks of the Budget:

- A commitment to increase the Scottish child payment to at least £40 per week by the end of this parliament (which would mean an overall 15,000 reduction in child poverty);
- “Increased employability support for parents in low-paid and insecure work as well as for parents not in paid work,
- Developing a system of childcare that ensures every parent can access up to 50 hours of childcare per week when they need it
- Sufficiently funding the Affordable Housing Supply Programme (AHSP) and ensuring all children live in safe, secure and permanent homes
- Delivering the commitment to provide free school meals to all primary school pupils and developing a timeline for universal free school meals in secondary schools
- In this budget, the use of devolved tax powers must go further and be even more ambitious to progressively raise money and increase family friendly job opportunities.”

Alcohol Focus Scotland argue that the Scottish Government should focus its attention on “how the budget can contribute to addressing high and increasing rates of preventable deaths, such as those caused by alcohol.”

- “Given the very real possibility that alcohol deaths may reach an all-time high in Scotland this year, as they have already done in England, we require a proportionate response. A new alcohol strategy is required which commits both to investment in the full range of recovery-oriented alcohol services and to evidence-based preventative interventions to reduce alcohol consumption and future harms. This will both improve outcomes for people and reduce demand on our NHS, social services and criminal justice system. Primary preventative measures such as reducing affordability, restricting marketing and reducing availability cost little to implement...
- We propose an alcohol harm prevention levy should 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.”

Public Health Scotland also favour “preventative” action calling for three main areas of focus across the public sector:

- “Shared focus on prevention: to help reduce short-term demand and free up resources for future investment, ensure a shared focus across the public sector on primary prevention and the reduction of health inequalities in key areas (i.e. child poverty).
- Invest in prevention: support reform by defining prevention spend and establishing a new preventative investment category of public expenditure, with the aim of improving health, wellbeing, and social capital.
- Measure progress and accountability: ensure we know what works and focus on whole system accountability for improved health and wellbeing & prevention. Use the revised National Outcomes and strengthen the role of audit bodies to measure system wide reform and the shift to prevention across national and local networks.”

The Institute of Chartered Accountants Scotland (ICAS) calls for greater focus on value for money (with Audit Scotland playing a key role) and much more longer term planning – “this needs to be extended over a 10, 20 or 30+ years horizon (as appropriate)”.

“Longer horizons offer greater flexibility for managing challenges, meeting/balancing future needs, managing capital expenditure requirements and understanding how well priorities are being delivered. A long-term approach is fundamental to the Scottish strategy, budget and tax policy. There are difficult choices to be made which will need long-term horizons to plan and deliver whilst demonstrating efficiency and effectiveness.

Scotland has a small tax population and an even smaller group of higher earners. It is also subject to close competition from neighbouring jurisdictions with no barriers to entry. This combines to make Scottish tax decisions and quality of service provision highly sensitive to changes which may compare unfavourably with the rest of the UK.”

ICAS suggest the following themes to help focus decisions on tax and spending:

- “How does this support our priorities?
- How will this improve productivity, efficiency and value for money?
- Is this providing the most positive impact?
- Does this meet stewardship responsibilities?
- Does this meet the most important service needs and alleviate key challenges?
- Stimulating and embedding reform (both quick wins and more fundamental) which has evidence supporting improvements in efficiency, productivity, quality and performance.”

Oxfam Scotland’s submission states that “it is abundantly clear that significant additional public spending is required” to achieve 3 of the 4 priorities (aside from growing economy).

“This includes, but is not limited to, paying for: transformational levels of investment in social care and childcare, as well as wider public services; increasing the value of social security payments, like the Scottish Child Payment and Carer Support Payment; placing Scotland on track for our legal child poverty targets, including by scaling-up a distinctive person-centred Scottish approach to employability support; and massively increasing investment in fair measures to reduce emissions in line with legal targets...

Scotland’s policy ambitions – particularly those reflected in law – cannot be sacrificed due to a shortage of resources; we must instead use an improved tax system to do more to help fairly raise the revenues required to deliver them.”

They point to the Scottish Government’s use of income tax powers to raise more money than would otherwise be the case, but think more can be done. Oxfam call for a “fundamental re-think” of the “devolved and local tax systems to raise more revenue while doing more to redistribute income and wealth and helping to shape behaviours in ways that align with key national priorities. Short-term, this means ensuring we have up-to-date information on the value and ownership of property and land in Scotland, setting out 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. Such interim steps must quickly act as a springboard for a wider set of fair tax reforms.”

## **Public service reform** (Questions 4-6)

ICAS argue that value for money in public services needs to be demonstrated. For example, the NHS in Scotland

“has received approximately £6bn more in funding than 6 years ago but reports reductions in patient access to priority services (including waiting lists, cancer, primary and dental care). Although the NHS is facing increased demand, we need to understand to what extent the extra investment in the NHS is generating productivity gains and efficiencies over time or is there a downward trajectory of patient access outcomes. This is a critical area to investigate, to better understand where improvement may be needed to effectively allocate scarce resources, whilst still supporting other government services.

Improving productivity is a key gap in the strategy. More emphasis on understanding productivity and why it is decreasing or fluctuating or varying across Scotland, and what can be done to address this is critical.

We suggest that what constitutes reform could be clarified. It includes not just structural change where needed, it can also be a series of small steps and sharing this with bodies that can deliver a big impact with less upheaval. Using data to reduce variations has been found to be useful (e.g. in the NHS). Reform can be an accumulation of both minor and major reform to achieve quick wins and maintain momentum.

Reform may need investment to bring longer term benefits. There is a balance between using funds to invest now to generate future savings. This needs transparency over where future investment is needed and ensuring VFM.”

The Scottish Retail Consortium calls for the “dusting down” of “the Independent Budget Review (headed by Crawford Beveridge) recommendations from circa 11-12 years ago, which set out a number of structural changes to make the devolved government more affordable to run. The Scottish Spending Review 2 years ago talked of there being 129 public bodies under the Scottish Government's purview, and again this number could conceivably be reduced.”

Audit Scotland flag the importance of reporting on public service reform spend, savings and deliverables:

“The committee has received updates from the Scottish Government on its ongoing reform activity, however it is unclear what additional spending is being allocated towards reform, what levels of cumulative savings its programme of reform will generate, and over what period these savings will be realised.

If reform is to be used as a tool to move the Scottish Government towards an affordable medium-term financial position, its financial plans should assess to what extent this is the case. This will allow a clearer understanding of how any remaining gap will be managed, either through reduced spending or increased revenue generation.”

On the size of the public sector workforce, Audit Scotland states that the Scottish Government should not be primarily focused on workforce numbers and pay costs as these alone “will not address current and future capacity challenges and is unlikely to balance public finances.” The submission continues, “effective public service reform requires better strategic workforce planning as well as wider changes to how staff work within and across organisations.”

For public bodies, “better data on public bodies’ workforces is urgently needed to ensure its workforce is sustainable.” Budget and medium term plans should be informed by the following information:

- “expected changes in spending due to pay growth by sector based on pay policies and pay deals
- expected changes in workforce numbers by public body based on existing workforce plans
- the anticipated effect on workforce costs of any spending efficiencies identified by public bodies.”

The STUC argue that public service reform should not be “code for cuts” and is “best undertaken in conjunction with workers and their trade unions”. Referring to the current local government dispute and the possibility of industrial action, they argue that this “highlights the issues with Scotland’s decision-making processes: a lack of clarity on accountability structures; Governments’ which pass responsibility to others – from the UK Government, to the Scottish Government to Local Government – and an unwillingness to engage in timely and meaningful discussions with workers through their trade unions.”

Resolution they argue “will require real investment and a willingness from all parties – including COSLA and the Scottish Government – to engage in meaningful discussions exploring all avenues to seek a resolution. Ensuring that local government was responsible for raising more of the funds that it spends would also help increase transparency and accountability.”

On the question of faster progress on public service reform and improved outcomes, Comhairle nan Eilean Siar calls for a commitment to firm milestones and timescales, and stronger direction from the Scottish Government as well as a “clear recognition that public service reform is necessary for good outcome-based planning, for genuine community empowerment and the achievement of other key objectives, such as population strategies and better health, in addition to better use of diminishing resources.”

The Comhairle nan Eilean Siar submission also calls for competitive pay for public sector workers. It sees this as particularly important in places like the Western Isles given its challenges in recruiting senior managers and specialists.

Scottish Borders Council argue that “public sector reform ought to focus on empowering public sector partners to deliver against shared objectives, responding to local circumstances, not on the centralisation of decision-making and a focus on duty-compliance. The ... dispute regarding the National Care Service, provides a significant example of public sector reform focused on integration of services at the national level, leading to a substantial risk of increased bureaucracy and a removal of local democratic accountability over care provision. It should be noted that the uncertainty created by the

NCS Bill has significant effects on service providers who are already facing particularly challenging circumstances (on the challenges facing Integrated Joint Boards)."

They also state that

"a key challenge in delivering against joint outcomes with Scottish Government lies in the sometimes challenging relationship between Scottish Government and Local Authorities in recent years. This relationship has been characterised by a long-standing dispute regarding the National Care service, funding, and teacher numbers...

Mending the relationship between local government, which is often at the forefront of the delivery of the FM's priorities is essential in improving the collaboration necessary to deliver on joint outcomes"

They argue that a "systemic underfunding of Local Government" has resulted in "declining service performance and user satisfaction, with Councils unable to invest in preventative non-statutory services due to prioritising statutory services." Financial pressures have resulted in "significant reductions in services, such as culture and leisure, which are vital for physical and mental health. These reductions exacerbate issues like obesity and increase pressure on the NHS and Council services."

COSLA argues that public service reform "involves a whole system reform with services streamlined across public bodies in Scotland to deliver improved public services and better outcomes for the people of Scotland... There must be a wholesystem approach to funding public services and investment in 'upstream' services in order to progress shared priorities and improve outcomes. This must also include consideration of what services must be stopped or radically changed. This requires consideration and alignment of resources around shared priorities across the entire public sector, not just Local Government."

COSLA also state that:

"There has been a lack of recognition that Scottish Government policy commitments have driven the need to increase public sector headcount to enable delivery of services, most notably in the expansion to 1140 hours of early learning and childcare. Contrary to this expectation, Scottish Government FTE staffing levels have regularly outstripped that of Local Government... Furthermore, FTE workforce in the NHS also grew by 19% between Q4 2013 and Q4 2023 whilst during this same period Local Government FTE workforce increased by 5.9%. This increase in staffing levels for Local Government was also influenced by councils bringing services back in house, rather than using external providers, for cost efficiency."

The Scottish Women's budget group highlight the gendered impact of public service reform, noting that in 2023 over 60% of people in employment in the public sector were female, compared with 44% in the private sector. In local authorities, female workers comprise over 40% of the workforce, and 70% in some councils like Clackmannanshire. "This makes PSR a gendered issue." One key request in the submission in the area of public service reform is for the integration of health and social care to be co-designed with service users.

"While budget pressures might have pushed PSR to the top of the policy agenda, this cannot be its only driver. Before implementing any policies aimed at increasing efficiencies in the public sector, policymakers must ensure the availability of data to consider the broader impact of this on (an ageing) population. For example, if "efficiencies" translates into cuts to public services, policymakers must interrogate the likely effects, costs and "effectiveness" of this on the population, on the potential rise of sickness levels, disabilities, levels of unpaid care, and how this might interact with widening inequalities (including gender inequality)."

## **Taxation** (Questions 7-9)

Professor Heald argues that "the way in which Scottish Governments and Parliaments have messed up tax devolution in the context of a dysfunctional UK tax system is depressing. My interpretation is that many MPs and MSPs understand the problems at these two levels of government but are frightened to take action for fear of electoral consequences." He proposes the following:

"The Draft Tax Strategy, and the attempt to build a cross-party consensus on direction of travel if not the detail, should focus on the main revenue-raisers, Scottish Income Tax (69.2% of devolved taxes in 2022-23), Non-domestic rates (13.3%) and Council Tax (12.9%). Tax decisions made by the Scottish Parliament should at the very least not magnify the faults of the UK tax system, instead offsetting them when the UK Government is not willing to address them."

Professor Heald calls for the ending of the "irrationalities" of people paying marginal tax rates of 50% on incomes between £43,663 and £50,271 and 69% on incomes between £100,001 and £125,140. He argues that these are undesirable on grounds of both efficiency ("they will provoke behavioural responses damaging to the Scottish economy and public finances") and equity ("when understood, they are reasonably seen as unfair and might be seen to legitimise behavioural change and tax avoidance").

Fraser of Allander make a similar point about the regressive nature of tax on those earning the amounts mentioned in the previous paragraph. The argue that "the fixing" of



this is “within the gift of the Scottish Government - as we demonstrated in our Budget Report last year, this need not cost any money, but requires the Scottish Government thinking about the tax system within the context of other taxes it does not control. It would certainly make for better labour market incentives.”

Fraser of Allander also draw attention to the Scottish Government’s starter rate of income tax “which is very costly for what they achieve (a maximum of a £20 a year reduction in liabilities) because they benefit high earners as well as low earners, given that they all pay that rate – and therefore it requires a steepening of the tax schedule to achieve progressivity.”

The Low Incomes tax reform group of the Chartered Institute of Taxation sets out substantive thoughts on what should be contained within the Scottish Government’s tax strategy (the Chartered Institute of Taxation makes similar points). These include:

- clear and accessible guidance for affected taxpayers, as well as awareness-raising measures in respect of new policies and policy changes;
- evidence of strong decision-making processes with robust procedures for scrutiny;
- a clear process for tax policy changes including a timetable and consistent mechanisms for announcing and implementation;
- consideration of interactions between devolved and reserved taxation; and between devolved taxes and UK/Scottish social security policies;
- set out a process and timeframe for ensuring that adequate time and capacity is given over to ensuring there is effective and efficient administration of taxes, whether in relation to policy changes or new policies;
- clear mechanisms for undertaking and publishing impact assessments of tax policies against aims and objectives;
- A legislative process that has integrity and credibility – in favour of annual Finance Bill 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.”

The Law Society also wishes to see an annual finance bill, which it said would allow for regular maintenance of, and amendment to, the devolved taxes.

“This could form part of the budget process, including formalising a regular timetable and mechanism for stakeholders to give input on any operational and policy concerns with the tax legislation. This includes so-called “care and maintenance” matters as well as substantive changes to tax policy and to rates and bands. We believe that an annual process, perhaps including an annual

"fiscal event", would allow for greater transparency and increased opportunity for proposed draft legislation to be considered by stakeholders."

The Law Society further calls for the tax strategy to commit to adequate consultation on tax proposals and legislation, noting that the proposals in part 2 of the Aggregates tax legislation were not consulted on and the tax strategy will be published as a finalised document without public consultation (albeit there will be stakeholder engagement events).

The Scottish Hospitality Group says that the tax system should ensure "businesses and sectors operating in the same space are treated equally by the tax system, which is not currently the case. For instance, the hospitality industry currently pays business rates based on the turnover of their business, while retailers pay business rates based on the square footage of their premises. In practice, this often results in businesses of a similar size and in an immediate proximity paying vastly different rates, with hospitality businesses often paying a far larger percent in rates compared to other sectors, even though the sector in most cases employs more people per square footage, than retail."

They continue: "addressing this discrepancy could be achieved without affecting spending on public services or affecting the sustainability of government finances, as the Scottish Government has already received funding to implement rates relief for the hospitality industry via the Barnett Formula." The Federation of Small Businesses and Scottish Chamber of Commerce also wish to see the business rate relief enjoyed in England and Wales passed on to small businesses in retail, hospitality, and leisure in Scotland.

South Lanarkshire Council argue that "the imposition of a council tax freeze was incongruous with the fact that Council Tax is (and should be) the tool available to local government to generate local taxes, that help meet the needs of local people. Council tax needs to remain a locally controlled tax, and not be subject to Government influence without due consultation and agreement. Council Tax Reform should be the tool to allow a reset on what is a dated system, bringing in considerations around potential revaluation and land values." Orkney Council also call for a review of Council tax and Non-domestic rates. Scottish Borders Council believe the tax strategy "ought to tackle council tax, including revaluation as a priority." (see also the ALLIANCE and RSE submissions who also want to see reform of Council tax).

In response to the question on taxation, South Lanarkshire also highlight:

- investment zones as a potential way to "attract investment, business and jobs";
- tourist tax introduction as a way to bring much needed funding into certain locations across a key sector;
- environmental taxes as a way to "promote sustainability".

Fife Council noted that “the Scottish Government's council tax freeze contradicts the Verity House Agreement, limiting Councils' flexibility in discretionary spending and creating a shortfall in local revenue, estimated by the Fraser of Allander Institute to be between £229 million and £417 million.” A similar point is made by Scottish Borders Council who said that the Council tax freeze in 2024-25 “cast doubt on the effectiveness of the agreement.”

Fife and Scottish Borders Councils argue that greater discretionary tax-raising powers would allow them to reinvest in local services, and “enhance local democratic accountability and address local priorities.” They see the Visitor Levy Act as a step forward in allowing local authorities to raise their own revenues.

“COSLA is working with the Scottish Government on potential new levies, such as a cruise ship levy and an infrastructure levy, to further support local economic growth and service investment. Enhanced Revenue Raising Other options for empowering local government include setting planning fees locally for full cost recovery and increasing building warrant fees to ensure sustainable funding for high-quality planning and building standards.”

The Scottish Women’s Budget Group and the Women’s Economic Empowerment Project argue that the Tax strategy, in line with gender budgeting principles, a tax should be:

- **“Transparent:** parliament, civil society and the public should have accessible information about tax decisions.
- **Participative:** there should be meaningful engagement in the development of a tax strategy.
- **Outcome-focused:** a tax strategy should be clear about how it will support the implementation of policies and the delivery of services to achieve the Government's goals as set out in the National Performance Framework.
- **Advances equality:** the strategy will support the development of a progressive tax system that puts gender equality at its heart, addressing the imbalance within our current system head on, by, for example, exploring the introduction of wealth taxes within the current devolved setting and/or by addressing local taxation.”

Oxfam Scotland propose “as a matter of urgency” the upcoming tax strategy and Scottish Budget should:

1. Kick-start the replacement of the unfair Council Tax by immediately taking the key interim step of a revaluation of properties across Scotland, a process not conducted since 1991.
2. Be bold on Income Tax to raise additional revenue while countering deep and rising levels of income inequality, by increasing rates and freezing or reducing

thresholds in the higher bands and consider adding further new bands to make Income Tax more progressive.

3. Publish a time-bound and ambitious plan to tax wealth more effectively in Scotland with concrete proposals for new wealth taxes at national and local levels and ensure all land and property in Scotland is registered with a current and accurate valuation.
4. Set out concrete options to raise additional revenue to deliver climate action, while making polluters pay for their damage and incentivising emissions reduction, including by operationalising Air Departure Tax with a new higher rate for private jets, leading to a frequent flier levy that ensures those who fly more, pay more.
5. Commit to swiftly developing proposals for new or reformed local taxes, including via Non-Domestic Rates, that incentivise businesses towards pro-social behaviour change, for example, to offer fair and flexible working and boosting support to those with caring responsibilities, and to reduce their climate emissions.

The Women's Economic Empowerment project answered the question on growing the tax base and increasing labour market participation, by focusing on improving access for disabled working-age adults, noting that half of disabled working-age adults (53%) in the UK were in employment, compared with 82% of non-disabled working-age adults.

To improve this, there is a need to:

- “Provide accessible, disability focused employability support for those most distanced from the labour market.
- Increase focus on ‘employer-ability’ i.e. supporting employers to recruit, develop, promote and retain more disabled people.
- Increase availability of accessible childcare for disabled children and social care for disabled parents to enable access to the labour market.
- Make Disability Equality Training mandatory for all public sector employers.
- Recruit, develop, promote and retain more disabled workers across Scottish Government and public bodies ensuring the necessary support is in place
- Increase investment in Access to Work
- Enable and resource ‘softer’ pathways into work e.g. lifelong learning, volunteering, peer support and role models as first steps to build confidence and aspirations.”

## **Climate emergency** (Question 10)

The Construction Industry Training Board (CITB) call for a “national retrofit strategy” which “would provide a rare ‘triple win’ for the Scottish Government, by improving environmental, economic, and social outcomes across Scotland, and facilitate the joined-up policymaking which the National Performance Framework aims to support. Delivery of a national retrofit strategy can be achieved through current Scottish Government commitments and on-going reforms, aided by external sources of support in a partnership approach.”

Responding in a personal capacity, Lorraine Grimes argued there were more important priorities for resources at this time than the climate, and tackling poverty and growing the economy should be the priority.

Universities Scotland point to the important role universities play in tackling the climate emergency through research, innovation, energy technology and skills. They site examples of universities fostering cross-sector working such as

“Scotland Beyond Net Zero which is a coalition aimed at catalysing high impact research and innovation on climate, and the Energy Technology Partnership of 14 Scottish Universities, which is the largest academic energy research partnership in Europe which has increased R&I capability across a range of energy technologies. There are also international centres of expertise at individual universities, such as FloWave at the University of Edinburgh, which has been at the forefront of renewable energy testing and engineering since it opened a decade ago, and Glasgow as a Living Lab Accelerating Novel Transformation (GALLANT), which is pioneering novel approaches to climate, health, and economic justice across Glasgow.”

South Lanarkshire Council highlights the important role of local authorities in tackling the climate emergency, but that this will require increases in funding across several financial years “rather than the current single year budget arrangements.”

“Such a continued and stable investment programme would encourage innovation, collaboration and drive efficiencies, not just with Local Government partners, but also with the private sector...”

In terms of prioritising investment, the Scottish Government should prioritise action on new green technologies (research and development) and on energy infrastructure such as Air Source Heat Pumps, district heating, Low and Zero Carbon Technologies, waste heat, etc.”

Transport Scotland state that “in order to tackle the climate emergency, the Scottish Government needs to cut emissions from the transport sector, transport being the

largest single source of emissions. In order to do this, the Scottish Government should switch capital expenditure from high-carbon transport spending (in particular road construction) to active travel & public transport, the low-carbon modes of transport.” The submission also notes:

“A concentration on sustainable transport would also benefit efforts to alleviate child poverty, as the lowest-income households are much more likely to be reliant on the sustainable transport modes...”

Scotland's taxation policy should take as a central focus the 'polluter pays principle', moving taxation away from economically-productive factors (such as labour) and on to negative externalities (such as pollution). Road use & aviation are grossly under-priced when economic, social and environmental externalities are taken into account -- which, unfortunately, the Scottish Budget process continues to entirely fail to do. As an early example, the Scottish Government should be using the powers provided to it to implement the transition from Air Passenger Duty to Air Departure Tax, and in doing so increase income generated from ADT to better cover the grotesque levels of climate pollution emitted by the aviation industry.”

The Scottish Chamber of Commerce call for consideration of the following measures to address the Climate emergency:

- “The Scottish Government must speed up the determination for network and renewable energy infrastructure to within one year of a planning application received.
- In addition to increased 2030 and 2045 ambitions, an interim 2035 ambition should be set for offshore wind.
- A solar PV ambition of between 4-6 GW by 2030 should be set, as proposed by Solar Energy UK.<sup>7</sup>
- The Scottish Government must recognise the continued importance and value that oil and gas will have for Scotland’s energy mix for the next 20-25 years.
- The Scottish Government must review how it intends to take account of labour shortages in the Climate Emergency Skills Action Plan, that includes the accelerated upskilling of the general workforce for green jobs as well as the transferable skills widespread in the oil and gas workforce.
- The Scottish Government must review how it intends to align the Draft Energy Strategy and Just Transition Plan with UK Government directives such as the British Energy Security Strategy (which sets out plans to further utilise North Sea reserves) and the North Sea Transition Deal.
- Develop a national plan for EV charging infrastructure, in line with the recommendation made in the Just Transition Commission’s 2020 report ‘Advice

for a Green Recovery', created in collaboration with transport providers and energy providers."

## **Capital expenditure** (Question 11)

The Scottish Chambers of Commerce tie their response to the question on the Climate emergency to their response to the question on capital spending, and the importance of transport infrastructure. They state:

"Scotland's businesses support the Scottish Government's ambitions to reach Net Zero emissions by 2045, however, without delivering a fully functioning transport infrastructure that's fit for the 21st century, greater investment in green transport options and support to enable businesses transition, those ambitions become far more difficult to achieve."

Other transport priorities identified in the Chambers of commerce submission include fast track rail in the central belt, improving connectivity between Scotland's cities, quicker delivery of Phase 1 of the Glasgow Metro Airport Link, improvements to the A75 and A77, dualling of the A9 and A96.

The STUC also tie their response to this question to the climate emergency, stating:

Given the huge investment required to decarbonise our economy, and the cost-of living crisis, it makes sense to prioritise capital spending on tackling climate change while simultaneously reducing the cost of living. This means investment in public transport, retrofitting homes, and transforming our energy system in a way that takes back control from profiteering multinational energy companies. This should include funding for Local Authorities to establish municipal bus companies and municipal retrofitting programmes as well as capital funding to establish a publicly owned energy company, similar to the Welsh Government."

Investment in social housing, including council housing, is also crucial if we are to address the housing crisis. These are all areas essential to people's standard of living and the core of our economy. Capital investment to build these programmes will deliver economic growth from the foundations of the economy, reducing the cost of living to keep money in people's pockets, and creating jobs across the country."

Several submissions flag the cut to Housing budget in the current year, calling for it to be reversed. Fife Council state that "significant reductions to the Affordable Housing Supply Programme (AHSP) and other capital budgets are exacerbating the housing crisis. This impacts Councils' ability to address homelessness and provide affordable housing, which is critical for mitigating poverty and improving health outcomes."

CIH Scotland argue that “the 2025-26 budget must reverse cuts to the AHSP which have resulted in thousands of homes being delayed. The Scottish Housing Regulator’s analysis of the availability of social housing lets for 2023-24 highlights a significant shortfall in housing supply worsened by recent budget cuts.

- Registered social landlord (RSL) homebuilding has slowed and is expected to remain at a lower level for five years.
- The number of social rented homes becoming empty has dropped for each of the last two years.
- This means that social landlords have significantly fewer homes available to let to people in need, including homeless households.

If funding cuts are not urgently addressed, the housing emergency will worsen. This will result in increased spending on temporary accommodation, increased poverty and inequality, worsening health and wellbeing and increased costs for the NHS.”

The Scottish Property Federation argue that:

“If the government is serious about its intentions to tackle the housing emergency, then it must realign its policy priorities in order to support and not deter investment across all forms of residential investment. This would include avoiding sudden large cuts to its own housing budget which must surely be seen as a policy priority given the Scottish Parliament’s declaration of a housing emergency. The Committee should be clear however that the public sector alone cannot make significant inroads into the housing crisis: private investment is vital if this challenge is to be addressed.”

South Lanarkshire Council also criticise the Housing cut stating that “cuts to Housing capital funds (Affordable Housing Funding) at a time where councils (and the Scottish Government) are declaring housing emergencies sits completely at odds with the need to continue to provide basic public services, before we even consider growth.”

Scottish Borders Council argue “there has been a disconnect between the strategic policy objectives outlined by Scottish Government and recent budget decisions, in particular when it comes to capital spend.”

“For example, cuts to capital funding for affordable housing, as part of the recent budget, run against SGs broader policy intentions pertaining to affordable housing and the housing emergency. The same applies to capital funding related to net-zero which has seen recent cuts. This mismatch between budgetary envelopes and policy intentions means that strategic investment is at risk in not matching the outcomes sought by LAs and SG and is a major barrier to optimal delivery by the public sector.”



Audit Scotland calls for transparency from the Scottish Government in its infrastructure plan, stating: “the Scottish Government should be transparent about these decisions, how and why they have been made and the impact they will have on public services. We recommended that the Scottish Government should produce clear information that explains how it decided to prioritise, delay, or cancel projects and programmes in its Infrastructure Investment Plan (IIP). This should be published at the same time as its updated capital spending review.”

The Scottish Women’s Budget Group call for gendered analysis of infrastructure spending.

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