Scottish Parliament Social Justice and Social Security Committee

Social Justice and Social Security Pre-Budget Scrutiny 2024-25

Written submission by the Poverty and Inequality Commission, 7 September 2023

1. Introduction

The Scottish Government's 2024-2025 Budget is being prepared in a difficult context. Inflation continues to be high and output from the economy is estimated to be contracting. The Scottish Government's medium term financial strategy[1], published in May 2023, had identified a potential gap of £1 billion between projected funding and spending in 2024-25 that will further increase in future years. Fraser of Allander Institute has recently noted that a smaller income tax reconciliation than had been expected, and increased borrowing powers in the latest Fiscal Framework Agreement should help ease some of this, but they estimate that the funding gap remains at around £600 million.[2] This means that difficult decisions will need to be taken about reallocating funding and raising money through taxation if the Scottish Government is to achieve both fiscal sustainability and its mission of tackling poverty and protecting people from harm.

We focus here on the action that is needed through the budget to tackle child poverty, address the impacts of the cost of living crisis and maintain existing services that act to prevent or reduce poverty. We also comment on the need to raise further revenue and continue to ensure budget transparency.

2. Action to tackle child poverty

When the Commission published its 2022-2023 report[3] scrutinising progress towards meeting the child poverty targets it highlighted that the funding being allocated to actions to tackle child poverty, excluding that for the Scottish Child Payment, did not seem to match the ambitions set out in Best Start, Bright Futures[4], the Scottish Government's 2022 to 2026 tackling child poverty delivery plan. It identified this as one likely reason for the lack of pace of delivery.

The Commission concluded in its 2022-23 scrutiny report that it considered it unlikely that the Scottish Government will meet the interim child poverty targets in 2023-24,

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[1] The Scottish Government's Medium-Term Financial Strategy - gov.scot (www.gov.scot)
[2] What was in today's Programme for Government? | FAI (fraserofallander.org)
[3] Poverty and Inequality Commission Child Poverty Scrutiny Report 2022-23 - Poverty & Inequality Commission (povertyinequality.scot)
[4] Executive Summary - Best Start, Bright Futures: tackling child poverty delivery plan 2022 to 2026 - gov.scot (www.gov.scot)

and also that there is a very high likelihood that the Scottish Government will miss the 2030 targets as things currently stand. The Scottish Government's updated modelling[5] published alongside its most recent tackling child poverty annual progress report also suggests that, despite the package of Scottish Government policy measures contributing to a reduction in child poverty, both the relative and absolute interim child poverty targets will be missed.

When the Commission looked at the 2023-2024 Budget and the Resource Spending Review, it was our view that the funding being allocated to significant commitments, such as the further expansion of funding early learning and childcare and building a system of school age childcare, was not sufficient to make progress on delivering these commitments in time to meet the 2030 child poverty targets.

More recently, in Programme for Government, the Scottish Government reiterated its commitment to expanding high quality funded childcare. It set out actions, including working with partners to develop the local infrastructure and services needed to provide childcare from nine months to the end of primary school in specific communities in six local authority areas. It also committed to working with local authority and other sectoral partners to phase in an expanded national offer for families with two year olds, focused on those who will benefit most. It says that, taken together, its actions will expand access to funded childcare for 13,000 more children and families by the end of this Parliament. In addition, the Scottish Government committed to providing the necessary funding in the Budget to increase the pay of those delivering funded early learning and childcare in the private third and independent sectors to at least £12 per hour.

These commitments are welcome, but it will be important that sufficient funding is available in the budget to deliver then. The actions are also still not of sufficient scale to make the progress needed to meet the 2030 child poverty targets.

Existing investment and policies that can help tackle child poverty are also being affected by the wider economic situation. Investment in affordable housing, for example, is being impacted by a range of factors such as shortages in the supply of construction materials, labour shortages and high inflation. There has been fall in the number of approvals and starts for affordable homes, which will mean that fewer affordable homes are delivered in future years. This means that some of these policies are likely to have less of an impact on child poverty than had previously been anticipated.

In addition, the Commission's view is that further action and investment, beyond that set out in Best Start, Bright Futures, will be needed if the 2030 child poverty targets are to be met. The current financial situation means that it is not clear how that will be achieved.

The Commission has said that there needs to be clarity about whether sufficient funding is going to be available to deliver the actions set out in the delivery plan to

[5] Tackling child poverty delivery plan - annual progress report: annex b - cumulative impact assessment update - gov.scot (www.gov.scot)

the necessary timescales. If the Scottish Government is committed to its mission to tackle poverty then it must ensure that funding is available to deliver the actions needed to meet the child poverty targets. This will require reprioritisation of spend across Scottish Government and for the Scottish Government to make full use of its devolved tax powers, and potentially secure new powers, to raise additional revenue to tackle poverty and inequality.

3. Cost of living crisis

The cost of living crisis continues to affect households across Scotland, with continued high levels of inflation and rising interest rates driving up costs, particular of food and housing. The Commission has published two briefings on the cost of living during the last year[6], based on visits to frontline and community organisations across Scotland. Some relevant themes identified from these visits included:

A rising demand for services and rising complexity: In many cases rising demand was not simply in response to the cost of living, but demand had increased as a result of the pandemic and had never reduced. Some organisations reported a change in the profile of people coming to them, with more people who were experiencing in-work poverty and whose income was just marginally above the level where they would be eligible for benefits. Advice services said that they were not just seeing more cases but that the cases they dealt with were increasingly complex.

Household struggling with basic costs: Costs for energy, food, transport and debt were a big concern reported by organisations, with households struggling to pay energy bills and buy food.

Organisations facing increased demand and higher costs: Organisations the Commission spoke to were struggling due to the increased community need for their services and the unstable higher costs of providing them.

Funding and staffing: Some organisations said they were finding it ever more difficult and stressful to cover their core costs. For some organisations, the combination of rising costs and static funding was having an impact on staff recruitment and retention, as staff were forced to look for better paid and more secure work. Advice services were seeing a negative impact on the wellbeing of staff, as for some clients they were running out of support options to offer.

The budget will need to take account of these issues. The need for support to households with the cost of living has not gone away. Despite the energy price cap being lowered it is still significantly higher than two years ago. ONS[7] reported that the inflation rate for food and non-alcoholic beverages was 14.9% in July 2023, which is higher than the overall inflation rate. Low-income households who spend a

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[6] Poverty and Inequality Commission - Briefing on the cost of living crisis - Poverty & Inequality Commission (povertyinequality.scot) & Poverty and Inequality Commission: Cost of living and advice services in Scotland - Poverty & Inequality Commission (povertyinequality.scot)
[7] Cost of living insights - Office for National Statistics (ons.gov.uk)

much larger proportion of their income on essentials such as food and fuel continue to be badly hit. Funding for frontline organisations, whether this is directly from Scottish Government or from local authorities, will also need to take into account the increasing pressures on and costs for organisations.

4. Maintaining existing services and programmes

While it is important to highlight the need for funding to implement the new commitments to tackle child poverty, budgetary challenges mean that there are also significant risks to existing services and programmes that support people experiencing or at risk of experiencing poverty. While reprioritisation of funding will be needed, it needs to be looked at holistically. Funding for local government and health and social care services, in particular, is crucial in enabling them to provide the foundation services that people are relying on. It is important that new programmes and services are not layered on top of disintegrating foundations.

Timely access to appropriate health services is important in preventing poverty. Analysis by Fraser of Allander Institute[8] has shown the rise in economic inactivity among working-age people (16-64) in Scotland due to health problems. The latest figures for April to June 2023 show that the rate of economic inactivity in Scotland was 22.6%,[9] higher than the rate for the UK. The Fraser of Allander analysis found that a greater proportion of Scottish economic inactivity is attributable to health problems than is the case for the rest of the UK. Mental health is a particularly important factor in economic inactivity, with the proportion of economically inactive people reporting mental health as their main health problem, rising from 10% to over 15% in 2022. If people face long waits to access appropriate services, or are unable to access them at all, these increases the risk that they will become unable to work and experience poverty.

Local government budgets are facing major challenges with high levels of inflation, increasing costs and increasing demands. Where funding is squeezed local authorities are likely to focus on meeting their statutory duties and cut back non-statutory services, including those provided by the Third Sector.

Two recent issues that have appeared in the news – the withdrawal of childcare provision for children under the age of two at Stirling Council run Killin nursery, and anticipated cuts to Community Links Practitioner posts in Glasgow – appear to illustrate the risks of cuts to non-statutory services. While the Commission does not have any specific knowledge of the detail of these cases, they appear to demonstrate that these kinds of risks are becoming a reality.

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[8] Economic inactivity and ill-health in Scotland | FAI (fraserofallander.org)

[9] https://www.gov.scot/binaries/content/documents/govscot/publications/statistics/2023/08/labour-market-trends-august-2023/documents/labour-market-trends-august-2023/labour-market-trends-august-2023/govscot%3Adocument/Scotland%2527s%2BLabour%2BMarket%2BTrends%2B-%2BAugust%2B2023.pdf

5. Raising revenue

In order for the Scottish Government to deliver on its mission of tackling poverty and protecting people from harm it will need to invest more in tackling poverty. While reprioritisation of spend is one of the tools it can use to do this, it will also need to raise additional revenue. The Commission has said that the Scottish Government will need to make full use of its devolved tax powers to raise additional revenue. The Commission will make specific recommendations on this shortly when its tax working group reports and will be happy to share these recommendations in full with the Committee.

Based on the evidence the tax working group has heard to date, it appears to the Commission that tax policy in Scotland has in general been progressive, and has been coupled with a pattern of spend that has tended to be redistributive and of most benefit to lower income households. However, it also appears to be the case that both the fiscal sustainability challenges that Scotland faces and the scale of the task to meet poverty reduction ambitions will require reform of tax that goes substantially beyond the changes we have seen in recent years.

6. Budget transparency

In its scrutiny of progress towards the child poverty targets, the Commission recommended that the Scottish Government must continue to improve the transparency of its reporting on funding allocations, in both major publications, such as the annual Budget, and in ad-hoc Ministerial announcements and statements.

While some improvements have been made in recent years in the transparency of information available, the Commission found that the actual level of financial resources going towards delivery of the child poverty commitments was often hard to determine or compare accurately with previous years. In the Budget documents it was sometimes difficult to reconcile the funding amounts set out in the text with the underlying budget tables. When funding is announced for particular commitments it is often unclear what is new money, and what is previously announced spend.