Finance and Public Administration Committee

1st Meeting, 2024 (Session 6), Tuesday 9 January 2024

Scottish Budget 2024-25

Purpose

1. The Committee is invited to take evidence from the following two panels of witnesses in relation to the Scottish Budget 2024-25 and the Scottish Fiscal Commission's December 2023 Economic and Fiscal Forecasts—

Panel 1
- Professor David Bell, Professor of Economics, University of Stirling,
- Dr João Sousa, Deputy Director, Fraser of Allander Institute, and
- Chris Birt, Associate Director for Scotland, Joseph Rowntree Foundation.

Panel 2 (roundtable evidence session)
- Richard Robinson, Senior Manager, Performance Audit and Best Value, Audit Scotland,
- Dr Jenny Peachey, Senior Policy Advocate, Carnegie UK,
- Shona Struthers, Chief Executive Officer, Colleges Scotland,
- Stacey Dingwall, Head of Policy and External Affairs (Scotland), Federation of Small Businesses,
- Martin Booth, Executive Director of Finance, Glasgow City Council,
- Keir Greenaway, Senior Organiser for Public Services, GMB Scotland,
- Francesca Osowska, Chief Executive, NatureScot, and
- Kirsten Hogg, Head of Policy and Research, Scottish Council for Voluntary Organisations.

2. The Committee has agreed to build on the recommendations in its Pre-Budget 2024-25 Report by focusing its scrutiny of the Scottish Budget 2024-25 on establishing the affordability of the Scottish Government's tax and spending plans and how it has prioritised spending to deliver its three missions of—

   - Equality: Tackling poverty and protecting people from harm
   - Opportunity: A fair, green, and growing economy, and
   - Community: Prioritising our public services.

3. This paper provides background information to support the Committee's scrutiny of the Scottish Budget 2024-25. A background note on the UK context, including key issues raised during recent evidence sessions with the Office for Budget Responsibility (OBR) and the Institute for Fiscal Studies (IFS) is included at Annexe A. Some witnesses have also provided written submissions,

which are included at Annexe B. The SPICe briefing on the Scottish Budget 2024-25 was published on 4 January 2024.The SPICe briefing on the Scottish Budget 2024-25 published on 4 January 2024 provides additional background material.

Scottish Budget 2024-25 and accompanying Economic and Fiscal Forecasts

Forecasts

4. The Scottish Fiscal Commission's (SFC) Economic and Fiscal Forecasts - December 2023 were published alongside the Scottish Government's Scottish Budget 2024-25 on 19 December 2023.

5. According to the SFC, the outlook for the Scottish economy is largely unchanged since its December 2022 and May 2023 Forecasts, "with a slightly less negative picture for 2023-24 compared to a year ago". It has revised up its forecast of real disposable income per person, however, the drop in living standards of 2.7% between 2021-22 and 2023-24 is "the largest reduction in living standards since Scottish records began in 1998". The SFC forecasts "slow and fragile growth in GDP and real disposable income per person, as the recent rises in interest rates continue to weigh on household incomes and the economy, with inflation also likely to stay higher for longer than we assumed previously".

6. The SFC notes that UK Government funding through the Block Grant has increased by £318m. Total funding in the 2024-25 Scottish Budget is £1.3bn higher than in 2023-24, a rise of 0.9% in real terms. While resource funding is expected to increase by £1.5bn, capital funding is set to fall by £173m in 2024-25. The SFC explains that "most of the increase in resource spending is due to the improved income tax net position". This increase of £1.2bn since the SFC's May 2023 Forecasts is explained as being due to inflation and higher earnings growth resulting in increased income tax revenues. The SFC suggests "we have no strong reasons to believe it is either significantly under or over-estimating Scottish tax revenues", adding "however there are risks and uncertainties" including Real Time Information (RTI) being an "imperfect predictor" of outturn data and lack of information on self-assessment tax revenues. It further notes that there are similar uncertainties in the OBR's forecast of UK income tax revenues.

7. The SFC highlights a reduced expected income tax reconciliation for 2021-22 (to be applied to the 2024-25 Budget). This now stands at -£390m, a reduction from the figure forecasted in May 2023 of -£712m. This, the SFC explains, is partly offset by positive reconciliations for the Block Grant Adjustments of other devolved taxes and social security, with the full reconciliation figure at -£338m. In relation to the Scotland Reserve, the SFC explains that the Scottish Government has set the 2024-25 Budget "with no assumed funding from the Scotland Reserve, as it plans to use all the available balance in the current year

(2023-24)". Any underspends arising could, it notes, be added to the Reserve and used in future years.

8. The SFC projects large positive reconciliations for years 2022-23 and 2023-24 as a result of revising up its estimates of the income tax net position for those years following higher than expected outturn in 2021-22 and higher than expected relative earnings growth in Scotland in 2022-23, alongside policies to raise additional revenues. As set out in the table below, a positive reconciliation for 2022-23 (to be applied to the 2025-26 budget) of £732m is forecast.

Outturn and indicative estimates of income tax reconciliations

Collection Year Applies to Budget for	2021-22 2024-25	2022-23 2025-26	2023-24 2026-27
Reconciliation (£m)	-390	732	502

Source: SFC
Shaded cells refer to outturn available at time of publication.

9. The SFC notes that increases in public sector pay "have a significant effect on Scottish Government spending", with 2023-24 pay estimated[1] to account for over £25 billion of resource expenditure across the devolved public sector, including local government (over half of the resource budget). In the absence of the Scottish Government's pay policy for 2024-25, the SFC has assumed average devolved public sector pay growth of 4.5%. It states that "given the information we have on funding, assumptions about pay and the size of the total pay bill, and assumptions about the size of the reserved public sector in Scotland, this implies a fall in Scotland's public sector employment from 2023-24 onwards".

10. In the medium-term, the SFC expects total funding (resource and capital) to increase by 4% in real terms between 2023-24 and 2028-29, however capital funding is expected to fall by 20% in real terms over the same period. The SFC however highlights that—

> "Policymakers need to plan for the potential for funding from 2025-26 onwards to look quite different from the picture presented here. Due to the various funding sources and forecasts used, the outlook for the Scottish Budget is always somewhat uncertain but the high inflation environment is increasing the risk of large changes in funding. We note the current funding outlook from 2025-26 onwards has two particular elements of uncertainty: there is the risk the income tax net position provides a less positive contribution to funding than is currently projected, and at the same time UK Government spending could be higher than currently planned, increasing funding available to the Scottish Government."

11. The Committee took evidence from the SFC on its Forecasts and the Scottish Budget 2024-25 on 20 December 2023.

[1] Estimates from the Scottish Government.

Scottish Budget 2024-25

12. In her foreword to the Scottish Budget 2024-25, the Deputy First Minister explained that “in setting this budget the Scottish Government has adopted a values-based approach focused on our three missions” of Equality, Opportunity and Community. She goes on to say that—

> “We have been compelled to take painful and difficult decisions in order to prioritise funding in the areas which have the greatest impact on the quality of life for the people of Scotland. We make no apology for deploying the levers available to us to deliver on our values – protecting people and optimising services”.

13. The Budget 2024-25 sets out the Scottish Government’s plans for taxation, including—

    - increasing the Starter and Basic rate income tax bands by inflation to £14,876 and £26,561 respectively. These rates, along with intermediate and higher and top rates, will remain unchanged,
    - introducing a new 45p Advanced rate band for those earning over £75,000,
    - increasing the Top rate of tax from 47p to 48p, paid by those earning more than £125,140,
    - making available an additional £144 million of funding to councils who agree to fully fund a council tax freeze,
    - maintaining residential Land and Buildings Transaction Tax rates and bands at their current levels, and continuing first-time buyer relief and 6% additional dwelling supplement rate,
    - introducing legislation to increase, from 1 April 2024, the standard rate of Scottish Landfill Tax to £103.70 per tonne and the lower rate to £3.30 per tonne, in line with planned UK Landfill Tax increases, and
    - in relation to Non-Domestic Rates (NDR), freezing the Basic Property Rate charged to properties with a rateable value of up to and including £51,000, at 49.8p, and increase the other rates by inflation. NDR reliefs are also maintained, and 100% relief will be offered to island hospitality businesses, capped at £110,000.

14. The SFC forecasts the Scottish Government’s policy announcements introducing a new additional tax band and increasing the top rate of income tax by 1p to raise £82m, after taking account of assumed behavioural changes. Revenues, it notes, would be £118m higher without this behavioural response. It explains that “increased income tax rates may lead to some taxpayers changing their behaviour, for example, increasing contributions into a pension scheme, reducing their working hours, leaving Scotland or more aggressively pursuing tax avoidance or evasion”. Income tax behavioural responses are “highly uncertain” and “to an extent, the behavioural response in Scotland to current policy changes is unknowable”. However, the SFC suggests that “even if we under or over-estimated the behavioural response by 50%, this would not

pose a significant risk to the total Scottish income tax revenues" due to the sums involved.

15. The Scottish Government's spending plans for 2024-25 include—

- allocating £13.2bn to the NHS, an increase of £550m funding for NHS Boards,
- providing £6.3bn to social security payments, an increase of almost £1bn on 2023-24 figures, including increasing the Scottish Child Payment in line with inflation,
- increases to resource funding for policing of £75.7m and capital of £7.2m to improve estate, fleet, and technology, and to the Scottish Fire and Rescue Service of £13.6m resource and £10.3m capital to improve facilities,
- increasing the budget for the Crown Office & Procurator Fiscal Service from £198.7m to £223m,
- increasing the total Scottish Prison Service budget from £540.7m in 2023-24 to £648.2m,
- funding the £12 per hour living wage for adult and children's social care and early learning and childcare workers,
- investing £358m to help people install clean heating systems and make their homes more energy efficient,
- investing £66.9m to "kickstart our commitment of up to £500 million to anchor a new offshore wind supply chain in Scotland",
- spending nearly £2.5bn on public transport and increasing active travel funding to £220m,
- continuing to deliver free school meals for all children in Primary 1-5, and funding local authorities with £1.5m to cancel school meal debt, and
- increasing arts and culture funding by £15.8m.

16. The SFC highlights the Wellbeing, Economy, Fair Work and Energy, Rural Affairs, Land Reform and Islands, and Finance portfolios as facing real terms spending reductions. Within the Education and Skills portfolio, notable funding reductions include to the Scottish Funding Council, skills, and tuition fees.

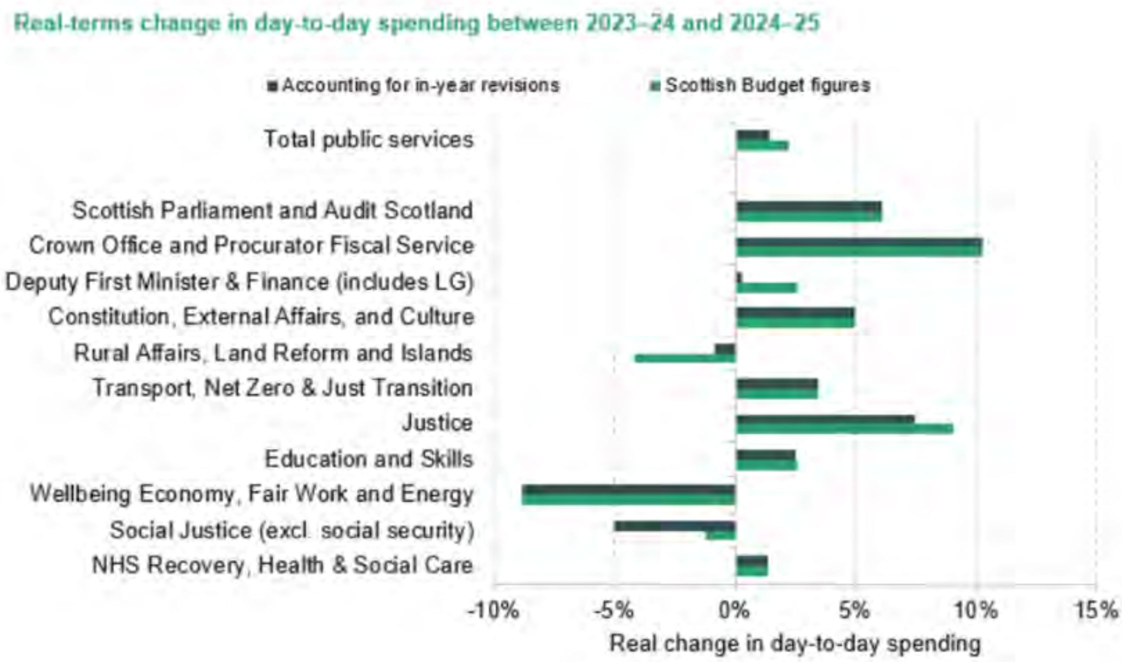
17. In relation to the Scottish Government's capital budget, the Scottish Government notes that, while its £6.25m capital budget will "continue to be invested across a range of high priority areas to help maintain high-quality public services and achieve a just transition to a net zero economy …, delivering on our medium-term capital ambitions will not be easy". It indicates that this is a larger cut than it had modelled for and "means that it will take longer to deliver all our planned capital projects and programmes – unless the UK Government changes course and increases its investment in capital programmes". The Scottish Government explains that it plans to borrow the new maximum of £458m for capital in 2024-25 set out in the recently updated Fiscal Framework and will consider accessing alternative sources of capital borrowing in future. Budget lines facing cuts include More Homes, which is reduced from £740.1m in 2022-23 to £375.8m in 2024-25.

Commentary on the Scottish Budget 2024-25 – IFS and SPICe

18. The IFS states in its 20 December blog that, "as with this year, public sector pay deals are set to be a big financial challenge in 2024-25", with pay deals at the level assumed by the SFC of 4.5% would "mean very difficult choices on staffing numbers and non-pay expenditure". Its preference is to compare spending plans for the coming year with the latest figures for the current year rather than the Scottish Government's approach of comparing the budget agreed at the start of the year with next year's plans.

19. SPICe, in its Spotlight blog on the Scottish Budget 2024-25 also comments on this approach, suggesting that "the in-year changes have been significant as revised pay deals and cost-of-living interventions have been required to combat soaring inflation". It adds "the result of these changes is that the usual 'budget-to-budget' comparisons could be, in some circumstances, misleading, or at least not give the full picture of the effect of the changes in budget from one year to the next".

20. Overall, the IFS indicates that around £310m of in-year top-ups to resource spending confirmed in the Scottish Government's Autumn Budget Revision are excluded from the baseline figures for 2023-24 presented in the 2024-25 Budget. The table below shows the real terms changes to resource spending between 2023-24 and 2024-25 taking account of these in-year 'top ups', with the non-benefit related Social Justice, Rural Affairs, Land Reform and Islands portfolios most affected.



Source: IFS

21. SPICe states that compared to the rest of the UK, the Scottish Government's income tax proposals mean that all taxpayers earning below £28,850 will pay

less income tax in Scotland than if they lived elsewhere in the UK, however the differences are small – only £23 per year for most in this group. Those earning £50,000 will pay around £1,500 more in Scotland, while those earning £150,000 and over will pay almost £6,000 more over the year.

The Committee's Pre-Budget 2024-25 Scrutiny

Background

22. The Committee's Pre-Budget 2024-25 Report on the Sustainability of Scotland's Public Finances was published on 6 November 2023. The Report set out the Committee's concerns regarding the Scottish Government's lack of long-term financial planning, affordability in decision-making, and the absence of an overall strategic purpose and objectives for its public service reform programme. The Scottish Government's response was provided on 19 December 2023.

Multi-year outlook

23. In its 2023 MTFS, the Scottish Government had committed to publishing refreshed multi-year spending envelopes alongside the 2024-25 Budget. In its Pre-Budget 2024-25 Report, the Committee recommended that this should include sufficient detail to enable meaningful parliamentary scrutiny and to allow public bodies to plan ahead. The Committee also said it would examine this information along with the updated Infrastructure Investment Plan expected to be published as part of budget scrutiny. However, the Scottish Government has only published single-year spending plans for 2024-25. It explains this is because "the nature of the Autumn Statement and the Office for Budget Responsibility's forecasts make future prospects more volatile, and it could be misleading to plan too far ahead across the board". It plans to "revisit the multi-year outlook" in its next MTFS in May 2024. Commenting, the SFC noted "in our role as the independent fiscal institution for Scotland we encourage the Scottish Government to plan its budgets over both the short, medium and long term", an approach it suggests is even more important against a backdrop of uncertainty.

24. There is no mention in the budget document of the expected updated Infrastructure Investment Plan.

Alignment with three missions

25. The Report recommended that "the Scottish Government explicitly sets out in the Scottish Budget 2024-25 if there are "any areas of spending it has assessed as not meeting its three missions test and where funding will, as a result, be reduced or ceased entirely". The Scottish Government's response states that the published portfolio allocations will reflect where investment has been sustained and prioritised. However, while the figures provided in the

Scottish Budget show where funding has been reduced or ended, there is little explanation of why these decisions have been taken.

Transparency and accountability

26. The Scottish Government has responded favourably to the Committee's recommendation that, to support transparency, it should adopt a similar approach to that of the UK Government and the SFC in comparing its Budget plans for spending with the latest estimates or outturns from the previous year's spend. While this information is not provided within the budget document itself, the Scottish Government states that it "recognises the need to provide this information and will set out the requested detail in an additional on-line publication in January 2024".

27. The Committee asked the First Minister to ensure that Cabinet Secretaries regularly report to Parliament on progress against the outcomes they are expected to achieve as set out in his mandate letters and sought clarity on how he will hold Cabinet Secretaries to account if these outcomes are not achieved. The response confirms that "the Scottish Government will report routinely, regularly and transparently on our performance", and that "Ministers will continue to provide updates on delivery as part of their ongoing engagement with the Scottish Parliament on progress in their portfolios". It remains unclear how Cabinet Secretaries will be held to account by the First Minister if progress is not made on the outcomes.

Tax Advisory Group

28. The Committee welcomed establishment of the Tax Advisory Group (TAG)[2] as announced by the Scottish Government in the MTFS in May 2023. Outcomes from the TAG were to "feed into the Scottish Budget 2024-25"[3]. The Committee saw this as a step towards the creation of a clear strategy for taxation in Scotland" and concluded that "it is imperative that this work progresses at pace".

29. The budget document does not explain if and how the TAG's work has fed into the Scottish Government's tax policies announced as part of the Scottish Budget 2024-25. The Scottish Government explains that its strategy for taxation will be published alongside the 2024 MTFS and will "focus on building on the principles and objectives that underpin the Scottish Approach to Taxation, which were set out in our Framework for Tax in 2021".

---

[2] Information on the Group and its membership can be found here: [Advisory group on tax strategy - gov.scot (www.gov.scot)](www.gov.scot).

[3] An update on the development of a longer-term tax strategy will be published alongside the May 2024 MTFS.

Fiscal sustainability, productivity, and affordability

30. The Committee recommended that the Scottish Government produces a full response to the SFC's Fiscal Sustainability Report setting out the actions it will take to start addressing the longer-term challenges ahead.

31. The Scottish Government's response is silent on this recommendation.

32. In response to the Committee's request for details of the progress made in delivering those actions in the National Strategy for Economic Transformation that will help increase productivity, wage growth and labour market participation, the Scottish Government identifies the rollout of some programmes and refers to its NSET Annual Progress Report. In response to the Committee's concerns around affordability not being a key factor in the Scottish Government's decision-making, the Government restates its approach to setting the budget.

Taxonomy approach

33. In its Pre-Budget 2024-25 Report, the Committee welcomed that an enhanced taxonomy approach to identify and categorise all spending lines across the Scottish Budget with regards to their climate impact[4] would, for the first time, include resource as well as capital. This Taxonomy was published as Annex J to the 2024-25 Budget and highlights that—

> "… around 9% of budget spend is positively aligned with the delivery of the Scottish Government's climate objectives [and] 2% is negatively aligned, primarily delivering road and livestock investments which support emission generating activity. The vast majority of spend, 72%, is neutral delivering on core objectives which generate relatively little emissions domestically but may have higher emissions when evaluated in consumption terms; this is primarily healthcare and social funding. Local government funding (around 16% of the total) is excluded from the taxonomy assessment".[5]

34. The Scottish Government assesses 75% of resource spend as neutral and 51% of capital, with 'negative high' at 1% in resource and 7% in capital. It explains that adopting this taxonomy approach "represents an overall proportional improvement in future budget reporting". The Scottish Government adds however that, "because the taxonomy is new and different in approach to previous years, analysis of 2024-25 does not include a comparison to previous years: instead, it aims to set a provisional baseline from which to learn".

35. The SPICe Spotlight Blog on the Scottish Budget 2024-25 notes that "these 'enhancements' do not tackle the big challenges in understanding how this spending will contribute to meeting Scotland's climate targets". It adds that "we

[4] Further information on this can be found in this Joint Letter from the Deputy First Minister and Cabinet Secretary for Net Zero, Energy and Transport to the FPA Committee, 18 November 2022.
[5] Carbon Assessment of the Scottish Budget 2024-25.

do not know what outcomes will be achieved by this spending – do the current allocations of negative spending set Scotland on a path to meet the emission reduction targets, to what degree is ‘positive’ spending offset by ‘negative’ [spend], and how will spending decisions in 2024-25 contribute to emissions in future years?”. The blog goes on to conclude that “unfortunately, this new taxonomy does little to increase the ability of parliament to understand or scrutinise the impact of the Budget on Scotland’s climate”.

National outcomes

36. The Committee in its Pre-Budget 2024-25 Report indicated that it looks forward to leading the Scottish Parliament’s scrutiny of the proposals for revised National Outcomes in 2024. It further asked the Scottish Government to provide an update on progress towards “developing an approach centred around multi-year programmes, the associated outcomes and the annual spend profiles attached”, including an overall timetable for completion of this work.

37. In response, the Scottish Government explained that “this approach is embedded across Scottish Government activity rather than being addressed as a single workstream [and] as such, Scottish Ministers expect all programmes in the Scottish Government to:

- have clear objectives linked to the delivery and achievement of outcomes,
- deliver value for money, and
- have closely tracked spend and regular reporting.

38. The Scottish Budget 2024-25 itself sets out for the first time the national outcomes (primary and secondary) that spend in certain portfolio areas is intended to contribute. These are repeated in the Scottish Government’s Equality and Fairer Scotland Budget Statement 2024-25, which also includes for the first time a ‘case study’ approach using a sample of eight budget lines as case studies, such as employability, primary care dental services, and social security. Commenting on the Statement, the SPICe briefing on the Scottish Budget 2024-25 published on 4 January 2024 suggests “it is hard to understand how the trade-offs inherent in budget setting have been shaped by equalities issues, and therefore how much of a priority tackling inequality is”, adding “the sheer volume of information [265 pages] can make scrutinising it more challenging”.

Public Service Reform

39. Recommendations from the Committee’s inquiry into the Scottish Government’s Public Service Reform Programme were included in its Pre-Budget 2024-25 Report. The Committee expressed concerns “that the focus of the Scottish Government’s public service reform programme has, since May 2022, changed multiple times, as have the timescales for publishing further detail on what the programme will entail”. It therefore made recommendations aimed “to bring much needed impetus, focus and direction to the Scottish Government’s

Reform Programme to ensure successful outcomes can be achieved at a much quicker pace".

40. The Scottish Government committed in its 2023 MTFS to providing six-monthly updates on the Programme to coincide with the Scottish Budget (usually published in December) and the MTFS in May each year. The Committee asked that the Scottish Government's first six-monthly update to the Committee includes the following information—

    1. a clear vision and strategic purpose for what it wants to achieve with the programme, including how it will provide leadership and oversight to support public bodies to deliver on this vision.
    2. the financial strategy to accompany the reform programme that was committed to by the then Deputy First Minister in March 2023.
    3. details of each workstream under the programme, milestones for their delivery and clear measurements of success, and
    4. an explanation of how the programme will impact on delivery of the national outcomes.

41. The Scottish Government's first update was provided alongside its response to the Pre-Budget 2024-25 Report on 19 December. It states that the scale of the financial challenges necessitates delivering efficiencies and making more effective use of resources to deliver services and improve outcomes, and that strategic change is needed longer-term to reduce demand, reduce costs and improve outcomes. The update sets out its "key aims and principles for a 10-year programme of public service reform, and the actions we need to take in the next 1-2 years to respond to our immediate budget challenges, and to build the platform for ongoing change". Four new workstreams have been established—

    - **Convening**: agreeing a common vision across the public sector for achieving sustainable public services and establishing the infrastructure that enables progress to be made.
    - **Saving**: identifying where clear and quantifiable, cashable savings, can be made, setting out targets for reducing/avoiding costs through efficiencies and supporting a longer-term approach to reformed services.
    - **Enabling**: creating the conditions for systemic reform, removing barriers to change and establishing ways that the public can see, understand, and influence the changes, and
    - **Aligning**: driving policy coherence and consistency across significant policy led reforms that will shape the future service landscape.

42. The update provides actions under each of the workstreams and sets out the progress it will make in Years 1 to 3. Over the next three months, it indicates that it will agree a shared approach, working with local government, the public and third sectors "to align, enable and deliver", and require all Scottish Government portfolios to set out their savings and reform plans by the end of the financial year "in line with the principles in this document and set out clear

savings targets to public bodies".[6] Portfolios and public bodies will be asked to "follow a cascade of options in delivering savings, taking all opportunities to increase the efficiency with which they deliver their functions, taking all opportunities to offer services in different ways, considering reclassification/alignment/merger of bodies or function, and reducing service only where these options are exhausted".

43. The Committee had set out in its Pre-Budget 2024-25 Report its concerns regarding the confusion that still appeared to exist in relation to the Scottish Government's policy on public sector headcount and workforce levels. In its response, the Scottish Government states that—

> "… expenditure on public sector pay increases in the past two years is now greater than the growth in our resource Block Grant funding from the UK Government. As a result of the ongoing fiscal challenges and uncertainty over UK Government funding and inflation levels the next phase of this work will focus on working with our Trade Union partners to deliver reforms to put our public sector workforce on a sustainable footing. We intend to set out the pay metrics for 2024-25 following the Spring UK Budget.[7]"

44. The update indicates that the Scottish Government will "establish enabling environment for workforce reform, including support for voluntary severance". It does not include, as requested by the Committee, the financial strategy to accompany the reform programme that was committed to by the then Deputy First Minister in March 2023.

Written submissions

45. Written submissions have been received from the Fraser of Allander Institute, Joseph Rowntree Foundation, Professor David Bell, Carnegie UK, GMB Scotland, NatureScot and the Scottish Council for Voluntary Organisations (SCVO). These are included in full at Annexe B, with key points set out below. Audit Scotland and Colleges Scotland have signposted the Committee to recent relevant publications, which are also summarised below. Where witness organisations have responded separately to the Scottish Budget 2024-25, key issues from their commentary are also included below.

Panel 1

Fraser of Allander Institute

46. In its submission, the Fraser of Allander Institute (FAI) states that "on the resource side, while there has been growth in funding and employment in the

[6] The update recognises there are some bodies and core services (such as the NHS, Police and Fire, Social Security Scotland, Colleges and some very small bodies), "which will require specific approaches based on their existing reform plans and service pressures".
[7] The UK Government has announced that its Spring Budget will take place on 6 March 2024. This is likely to be after the Scottish Government's Budget Bill is passed.

NHS, it has been slower in Scotland than UK-wide", adding "one of the reasons for this is the Scottish Government's pay policy, which has led to higher pay awards but means slower employment growth, all else equal in terms of budget". While headline resource spending for local government is also planned to increase, the FAI highlights "there will be much debate as to whether the council tax freeze was indeed 'fully funded' as had been claimed by Scottish Government Ministers". It goes on to say that "the £144m allocated … is roughly in line with our calculations for a 5% increase in rates across the board", however, some councils will lose out as they would have increased rates above this sum.

47. The FAI highlights that, while tax announcements "dominated discussion on the day, but in reality they did little to materially change the outlook of the Budget", adding—

> "In fact, many of the largest revenue raisers of this Budget were non-decisions, such as the non-uprating of the higher rate threshold, which means receipts are £300m higher than they would have been in the absence of inflation indexation. The continued absence of uprating of this threshold also continues to perpetuate higher marginal tax rates in Scotland for those earning between £43,663 and £50,270 than for those between £50,271 and £100,000."

48. The FAI further suggests that the Scottish Government only publishing one-year projections for portfolio and more disaggregated spending lines is "understandable" and welcomes some recent improvements in transparency by the Scottish Government.

Joseph Rowntree Foundation

49. The Joseph Rowntree Foundation (JRF), in its submission to the Committee (Annexe B), states it is "baffling that the affordable housing supply programme should be the victim of such a brutal cut as the one announced in the Scottish Budget 2024-25". It goes on to suggest that "this cut must be reversed while the Scottish Government redoubles efforts to work with the wider sector to take on the immediate emergency and put the Affordable Housing Supply Programme back on a sustainable path to meeting its longer-term objectives".

50. While the JRF welcomes the overall protection of the social security budget, it expresses disappointment that "the Scottish Government failed to meet the First Minister's commitment to raise the Scottish Child Payment to £30 a week". It further expresses concern regarding real-terms cuts to mental health funding, particularly given "good mental health is a protection against poverty" and highlights at best a modest impact from the council tax freeze on the incomes of low-income households and little or no measurable impact on poverty levels. It calls for a moving of the "debate from single budget lines to more fundamental questions about how we raise and spend public money", and "a deeper discussion of how public services are provided".

Professor David Bell

51. Professor David Bell's submission recognises that the 2024-25 Scottish Budget "was the most challenging budget faced by any Scottish administration since the beginning of devolution". He notes that "the experience of this budget highlights the need to extend and invigorate the process of public service reform", adding "there must be greater focus on improving productivity in public services". He goes on to say there is an argument for creating a Finance Ministry which he indicates exists "in many subnational jurisdictions", such as in Canada where different levels of government, including Québec, "work together to produce a coherent budgetary framework". He acknowledges "this may be a step too far at present for the Scottish Government, but there is a need to focus minds on why the 2024-25 budgetary round seems to have been particularly difficult".

52. On taxation, Professor Bell states—

> "It has long been argued that there is a strong case for reforming the UK tax system. In relation to taxing workers incomes, these recent policy changes suggest that the case for reform remains strong and is one in which the devolved governments should be engaged. Clearly the Scottish Government must also pay particular attention to the outcomes of the changes in income tax that it proposes in terms of their impact both on economic activity and on government finances".

53. Professor Bell further suggests that cuts to capital spending are "unfortunate, given that low investment is acknowledged to be one of the key impediments to growth both at the Scottish and UK levels" and notes the Resolution Foundation's comments that the UK Treasury has allowed public investment to be both too low and too volatile".

Panel 2

Audit Scotland

54. Audit Scotland has referred the Committee to the key messages in a number of its recent publications as providing the context and underlying financial challenges relevant to the budget. Its briefing paper on Investing in Scotland's Infrastructure published in September 2023 notes that the Scottish Government no longer expects to have enough money to deliver all its planned £26bn investment in public sector infrastructure. It suggests that "better data on the condition, occupancy and cost of the wider public sector estate is needed to ensure buildings are used more efficiently as part of Scottish Government plans to reform public services"[8].

55. In its report on The Scottish Government's workforce challenges, Audit Scotland highlights an increase of around 65% in the Scottish Government's

---

[8] News release (audit-scotland.gov.uk)

workforce numbers since the Scottish Parliament was established – from under 150,000 FTE in 1999-00 to over 245,000 by 2022-23. Pay deals agreed for 2022-23 and 2023-24, it notes, were £1.7bn more than initially planned and "these pay rises are locked into future budgets". Commenting, the Auditor General for Scotland (AGS) stated that "significant reform of the public sector – including its workforce – is needed to protect services over the long term", adding "an approach to reform purely focused on controlling workforce numbers will not address workforce pressures and is unlikely to balance the public finances". Similar comments regarding the need for public service reform were included in its 2023/24 audit of the Scottish Government Consolidated Accounts, with the AGS noting that "public services in their current shape are not affordable". He went on to say that "Ministers urgently need to develop a clear road map that lays out how public services will be reformed to make them financially sustainable".

Carnegie UK

56. In its written submission to the Committee (Annexe B), Carnegie UK refers to the citing of National Outcomes throughout the budget document as "encouraging", however, suggests that "it may be useful for the Committee to explore with Ministers whether these outcomes were considered at the outset of budget development and used to shape decision-making and resource allocation". It goes on to highlight a lack of clarity of whether those national outcomes that are the furthest from being realised have been prioritised for spending in this budget process.

57. It expresses disappointment at the announcement that the Scottish Child Payment is being increased by inflation only. It had supported an increase to £30 per week as "we believe that this policy has the capacity to make a meaningful change to levels of child poverty in Scotland". It went on to highlight analysis carried out by the Institute for Public Policy Research that suggests spending £140m on the Scottish Child Payment as an alternative to freezing council tax would lift 10,000 children out of poverty[9].

Colleges Scotland

58. In a media release on the Scottish Budget 2024-25, Colleges Scotland highlight an 8.4% reduction in revenue funding of £58.7m from £701.7m in the 2023-24 Budget to £643m, and an increase in capital funding of 3% to £84.9m. It however also notes that Scotland's colleges already experienced the loss of a £26m Transformation Fund in 2023-24. Its Chief Executive, Shona Struthers, commented that—

> "We acknowledge the extremely difficult position that Scotland is facing but colleges require adequate funding to continue to deliver on Scottish Government priorities. This includes providing key workers for health and

[9] Council tax freeze cash could have lifted 10,000 kids out of poverty | The Herald (heraldscotland.com)

social care, upskilling the current and future workforce to support the Just Transition, and supporting other vital industries."

59. She also indicated that "cutting college funding again creates massive challenges for college leaders", adding "there will be difficult choices about what colleges can deliver, what buildings can be repaired, and how to cope with rising staff costs".

60. Colleges Scotland also refers the Committee to its Draft Budget Submission 2024-25 and to its letter to the Deputy First Minister of 6 December 2023 and its analysis of the Draft Budget 2024-25, both of which are attached at Annexe B.

Federation of Small Businesses (FSB) Scotland

61. In a media release on the Scottish Budget 2024-25, FSB Scotland welcomed the protection of the Small Business Bonus Scheme and the poundage rate freeze, as well as targeted relief for island hospitality businesses.

62. However, its Policy Chair, Andrew McRae, suggested that "the big missed opportunity is the decision not to replicate the same targeted reliefs afforded to those in retail, hospitality and leisure in England to small traders north of the border". He highlighted that trading conditions are no easier in Scotland than elsewhere in the UK, with almost 3,500 businesses lost in the hospitality and accommodation sector in Scotland in the last year.

GMB Scotland

63. The submission from GMB Scotland argues that the Scottish Budget 2024-25 "will damage services, deepen inequality, and reduce the standard of living for our members and the communities they serve". On tax, it welcomes the introduction of a new income tax band "as this will collect more money from higher earners" however it adds "this goes nowhere near far enough to plug the gap in Scotland's public finances". GMB Scotland calls for council tax to either be reformed "to lift the tax burden on the lowest earners and place a greater emphasis on collecting taxes from the highest earners whilst increasing the revenue yield; or it must be scrapped and replaced with a new system which does the same".

64. GMB Scotland highlights that "without being properly financed or further financial powers, councils are facing "an equal pay time bomb", with councils reluctant to resolve these "in large part due to their limited finances". It expresses concerns regarding the Scottish Government's approach to its delayed pay strategy and around the funding of the NHS and social care. It further notes that "the investment of £358m to accelerate installation of clean heating systems in homes is naïve" and suggests instead that "greater emphasis should be placed on insulating homes to reduce energy use and emissions, building new nuclear for future generations, and on utilising Scotland's existing gas network through the use of hydrogen in home heating and meeting industrial and transportation energy needs".

NatureScot

65. In its submission, NatureScot welcomes the budget allocation for 2024-25 in broad terms but awaits clarification on key details. It suggests that "with the pay bill settlement, rising costs, the expansion of Scotwind and the introduction of new bills on Hunting with Dogs and Grouse and Muirburn Management, there remains considerable pressure on NatureScot's core Grant-in-Aid budget which has come under increasing pressure in recent years". On Peatland Action, NatureScot states that—

> "Within the context of the challenging fiscal situation facing the Scottish Government, it is a strong statement of support and intent from Scottish Ministers that the draft allocation for the Peatland Action programme is £26.9m for 2024-25. This is made up of £20.4m in capital funding and £6.5m in resource funding for the programme."

66. This falls short of the funding called for by the five delivery partners involved and NatureScot notes that "maximising the area that we can restore with the given budget is the primary budgeting principle", adding "our own response is to optimise existing resources in this area rather than look to increase them".

67. It provided a response to its Sponsor Team regarding the revenue-raising element of the Scottish Government's Public Service Reform Programme in September 2023. The Sponsor Team is collating responses and NatureScot is yet to receive its feedback on this.

SCVO

68. SCVO highlights in its submission to the Committee (Annexe B) that the voluntary sector has a key role to play in delivering all three of the Scottish Government's missions. However, the latest Scottish Third Sector Tracker found that 71% of third sector bodies have financial problems, 66% are facing increasing demands, 1 in 5 do not have the capacity to meet that demand, and 10% are uncertain about their future viability.[10]

69. SCVO noted that "disappointingly, in so far as we can tell, the budget does very little to progress [the] asks" it had made of the Scottish Government before the Budget was published. This includes progressing the Scottish Government's commitment to Fairer Funding for the sector by 2026 and ensuring the voluntary sector in Scotland benefits from Barnett consequentials in full. SCVO therefore anticipates further financial difficulties for voluntary organisations in 2024-25 and expresses concerns regarding the framing of the review of grant models around efficiency, and at the deferral of any multi-year outlook to the 2024 MTFS. It suggests that some bodies are now unlikely to learn about their funding until several months into the new financial year, "resulting in them having to issue redundancy notices to staff". It further highlights that a lack of transparency in the budget process "prohibits our ability to fully understand the impacts of the budget or to hold the Scottish Government to account".

---

[10] Scottish Third Sector Tracker, Spring 2023.

Next steps

70. The Committee will continue taking evidence on the Scottish Budget 2024-25 at its meeting on 16 December 2024, hearing from the Scottish Parliamentary Corporate Body followed by the Deputy First Minister and Cabinet Secretary for Finance.

Committee Clerking Team
January 2024

The Scottish Budget 2024-25: UK context

UK Government's Autumn Statement

1. The Chancellor of the Exchequer, The Rt Hon Jeremy Hunt MP, labelled his Autumn Statement on 22 November 2023 as an "autumn statement for growth", highlighting that the package includes "110 growth measures". The Chancellor explained his announcements are focused on five areas: reducing debt; cutting tax and rewarding hard work; backing British business; building domestic and sustainable energy and delivering world-class education". He indicated that, due to "difficult decisions we have taken in the last year", the fiscal situation now allowed him to deliver a package of tax cuts to support growth.

2. Key tax measures announced include reduced national insurance contributions, permanent full expensing of plant and machinery investment costs[11], extending business rates relief for retail, hospitality and leisure sectors in England, an alcohol duty freeze until 1 August 2024, and tobacco duty increases. The Chancellor's spending announcements include increases to universal credit in line with inflation (September figures) and the state pension in April 2024 by 8.5% in line with annual earnings growth for May to July 2023. He also increased the national living wage from 1 April 2024 by 9.8% to £11.44 an hour for eligible workers across the UK aged 21 and over and announced £80 million for the expansion of the Levelling Up Partnership programme to Scotland[12].

3. The Chancellor reaffirmed the UK Government's commitment set out in the Spring Budget 2023 that from 2025-26, planned departmental resource spending will continue to grow at 1% a year on average and that public sector capital spending will be frozen in cash terms. The House of Lords Library states in its briefing on the Autumn Statement that these spending targets restated by the Chancellor for 2025-26 onwards "imply real terms spending reductions for 'unprotected' departments". It highlights OBR estimates that the spending of unprotected departments would need to fall by 2.3% a year in real terms from 2025-26, increasing to 4.1% a year, should the UK Government continue with its ambition to increase defence spending to 2.5% of GDP and return overseas development assistance to its 0.7% of gross national income target.

4. The Chancellor stated that the Scottish Government is receiving £545 million in additional funding "as a result of decisions at the Autumn Statement".

[11] This was due to end in April 2026.
[12] For Na h-Eileanan an Iar, Argyll and Bute, Dundee, and the Scottish Borders. He stated that the UK Government will consider how to extend this programme further and will work in partnership with the Scottish Government "with the intention of delivering an extension to the Investment Zones programme in Scotland".

OBR's Economic and Fiscal Outlook – November 2023

5. The OBR published its 'Economic and fiscal outlook: November 2023 alongside the UK Autumn Statement. These five-year forecasts highlight that—

- The economy recovered more fully from the pandemic and weathered the energy price shock better than anticipated.
- Inflation is expected to remain higher for longer, taking until the second quarter of 2025 to return to the 2% Bank of England target, more than a year later than forecast in March.
- This domestically driven inflation increases nominal tax revenues compared to the OBR's March forecasts, however "it also raises the cost of welfare benefits, and higher interest rates raise the cost of servicing the Government's debts".
- The Chancellor meets his target to get debt falling as a share of GDP in five years' time "by an enhanced margin of £13 billion, but mainly thanks to the rolling nature of the rule giving him an extra year to get there".
- The tax burden rises in each of the next five years to a post-war high of 38% of GDP.
- The OBR has revised down its estimate of the medium-term potential growth rate of the economy to 1.6% from 1.8% in March, "largely driven by a weaker forecast for average hours per worker, which we now expect to fall in the medium term, rather than holding flat".
- Unemployment is forecast to rise to 1.6 million people (4.6% of the labour force) in the second quarter of 2025, around 85,000 people higher, and a year later, than expected in March.
- Living standards[13] are forecast to be 3% lower in 2024-25 than their pre-pandemic level.

6. The OBR further sets out the main changes to AME[14] spending since its March forecasts, including an increase in the Scottish Government's current expenditure by an average of £1.9 billion a year over the forecast, due to higher RDEL[15] spending and tax receipts.

7. During evidence on the OBR's forecasts and the Autumn Statement on 12 December 2023, Richard Hughes, Chair of the OBR noted that the "real spending power of Government departments in England goes down by about £19 billion over the forecast period" due to the Chancellor leaving public service spending plans unchanged in cash terms, despite a higher forecast for inflation". The implication for Scotland, he suggested, is that "if those spending plans are sustained, there will be fewer real increases in Barnett consequentials for Scottish departments because in practice less is being spent in real terms on health, education, transport and other areas where spending is devolved here in Scotland".

[13] As measured by real household disposable income (RHDI) per person.
[14] AME (Annually Managed Expenditure) is largely difficult to forecast public expenditure such as demand-led benefits and tax credits; non-cash costs; and bank holdings and loan repayments. Spending in AME is separate to DEL.
[15] The OBR defines RDEL spending as departmental or day-to-day spending.

8. The Committee's Pre-Budget 2024-25 Report includes the following conclusion, in light of its continuing interest in the need to grow the tax base and increase productivity levels—

   > "The Committee has consistently recommended that more action is needed to increase productivity, wage growth and labour market participation in Scotland and notes the Scottish Government's response pointing to its National Strategy for Economic Transformation (NSET) as key to addressing these issues. We ask what progress has been made in delivering actions in the NSET that will help increase productivity, wage growth and labour market participation."

9. In evidence, IFS Deputy Director, Carl Emmerson argued that, to address the UK's labour market challenges, "first, we need a strategy for getting people who are out of work and are economically inactive into work [and] secondly, we need to know how to help who are in work to progress, and how we can get the productivity gains that can ultimately deliver wage gains". He added that "we have done the latter particularly badly during the past 15 years".

10. On UK tax levels and workforce productivity levels, Mr Hughes from the OBR explained to the Committee that—

    > "Tax burdens are rising pretty much everywhere in the world, because working populations are shrinking and the numbers of people who are on state pensions or consuming public healthcare are rising. Therefore, if working people are not becoming significantly more productive than they were in the past—we heard in the earlier part of the evidence session that they are not—you need to get more tax out of your working population in order to deliver those pensions and to pay for those services. Working people are less productive than they were in the past. That is the arithmetic that is driving tax burdens higher everywhere."

11. David Phillips, Associate Director at the IFS, suggested that "rather than just looking at tax rates or tax thresholds, there could be opportunities for a fundamental reform of taxes", including in relation to property tax both in England and Scotland. He went on to highlight that the data on labour market trends "is being exposed as being quite poor", with a substantially lower response rate to the Office for National Statistics (ONS) labour force survey leading to inconsistencies between that data and HMRC's real-time information. For example, "based on the labour force survey, Scotland seems to have had an improvement in its labour force participation and employment relative to the rest of the UK, since before the pandemic …, however HMRC data shows that Scotland has the lowest increase in employment of any region of the UK—2.7% compared with about 4% in both England and Wales and 6% in Northern Ireland".

12. On the UK Government's decision to freeze total capital spending, Tom Joseph from the OBR stated that "the Government has not set any detailed spending plans beyond next year [and so] it is not really possible for us to say what the

implications are for public investment in the UK". He went on to say that "capital spending has increased as a share of GDP over the past few years, but it is expected to fall back down again over the forecast period if it is frozen in cash terms", adding "if such freezes were to be maintained over a long period, we would expect that to have a negative impact on economic growth over the longer term. Reductions in the capital funding available to the Scottish Government was an issue raised by the Committee in its Pre-Budget 2024-25 Report, when it noted its disappointment in this trend and said it is "particularly concerning during times of financial strain when governments should be investing in infrastructure to stimulate economic growth".

13. During evidence, Mr Phillips drew the Committee's attention to the SFC's previous forecasts of "more claims, more successful claims and longer claims in Scotland's disability benefits system", due to the eligibility conditions and how claims are assessed and reassessed. He added if this is the case "that will push up costs". He went on to say that "the next set of SFC forecasts will give some indication about the extent to which things are coming forward in the first 18 months or so of the roll out of Adult Disability Payment", including any rises in expenditure and potential implications for the Scottish Budget.

UNIVERSITY of STRATHCLYDE
FRASER OF ALLANDER INSTITUTE

Evidence to the Finance and Public Administration Committee on the 2024-25 Budget

João Sousa – January 2024

The backdrop to the Scottish Budget

As was widely trailed before the statement on the 19th December, the Deputy First Minister (DFM) was facing a difficult backdrop to the Scottish Budget. The projections in the Medium-Term Financial Strategy (MTFS) were for a £1bn shortfall in funding relative to day-to-day spending plans, as well as a £0.5bn shortfall relative to plans on capital spending.

The Scottish Fiscal Commission's (SFC) announced in the Summer that the income tax reconciliation affecting the 2024-25 Budget would be less unfavourable than anticipated, which reduced some of the anticipated shortfall, and there were also some Barnett consequentials from the retail, hospitality and leisure relief on non-domestic rates in England – and which the Scottish Government chose not to pass on.

But additional spending commitments, namely additional funding to compensate local authorities for freezing council tax, NHS waiting list reductions, and higher-than-budget-for pay awards, meant that the funding position in advance of the DFM's statement remained very challenging.

In the event, some of that pressure was eased by the SFC having a significantly more positive outlook for earnings for 2024-25. This matters because it directly impacts on the outlook for income tax, which in turn directly impacts the size of the Scottish Budget. The SFC's forecast from last month determines the envelope for the next financial year, whereas outturn tax receipts will only affect the reconciliation, and therefore the envelope for the 2027-28 Scottish Budget.

The SFC dedicated a large part of their December 2023 *Scotland's Economic and Fiscal Forecasts* publication to discussing the data on earnings, and why evidence of faster earnings growth in Scotland (compared to the rest of the UK) has persuaded them that this is likely to continue into 2024-25.

To be fair, they point out that other independent forecasters – other than the Office for Budget Responsibility (OBR) – are forecasting earnings growth that is closer to the earnings growth the SFC are expecting in Scotland. Essentially, they think that the OBR may well revise up their forecast in future fiscal events to come closer to their estimates. But this could mean that the relatively very positive impression given by the current set of forecasts may not persist, and the SFC flag this as a significant downside risk to the forecasts.

The spending decisions taken in the Budget

But even with this more positive than anticipated outlook, the DFM has had to make difficult choices as to which areas to prioritise.

The health budget has grown in real terms, with resource spending (excluding non-cash items) growing by 1.3% above inflation. Health capital spending is also planned to increase on 2023-24 plans by 8.4% above inflation.

It is worth noting – as we did in our Budget Report – that on the resource side, while there has been growth in funding and employment in the NHS, it has been slower in Scotland than UK-wide. One of the reasons for this is the Scottish Government's pay policy, which has led to higher pay awards but means slower employment growth, all else equal in term of budget.

There are two main issues arising from this in terms of the sustainability of the public finances. The first is that higher pay awards add to ongoing costs, as they increase spending both in-year and in future years. They will therefore require additional funding in future if they are to be maintained – or more restrained awards in future.

The second issues was flagged by the SFC in its *Fiscal Sustainability Report*, and refers to higher health spending going forward being highly likely – both as a result of population ageing and other cost pressures. This no doubt adds to these cost pressures and makes it harder still to provide the required level of health care for a population whose needs are increasing.

Headline resource spending allocated to local government is planned to grow as well, although there will be much debate as to whether the council tax freeze was indeed 'fully funded', as had been claimed by Scottish Government ministers. The £144m allocated for additional grants is roughly in line with our calculations for a 5% increase in rates across the board. But if allocation is equal across the board, and based on past behaviour, some councils will be winners (as they would have increased rates by less than the average) and some will lose out (as they would have increased rates well above the average). There was also no compensation for the cancellation of the increases in multipliers for higher band properties, which was consulted on and heavily expected to take place. Doing so would have cost the Scottish Government around £180m.

Of course, it is for the Scottish Government to determine the allocation of spending commitments and where they fall in terms of dealing with its priorities in terms of impacts on equalities. But it would fair to question whether additional spending to fund part of a council tax freeze which mostly benefits households in the higher brackets top of the income distribution is in line with that, especially as there are already schemes to reduce council tax on the basis of income affordability for those lower down the income distribution.

There was considerably less attention focussed on the areas that did less well from the Budget settlements, and in capital spending areas in particular there were some very large cuts compared with 2023-24 plans. Of course, this is to be expected given the size of the challenge from the Scottish Government's capital allocation from HM Treasury, but it is important to note which areas will be affected.

Major changes to planned spending include:

- The Affordable Housing Supply Programme being cut by over 30% in real terms, which itself followed a more than 10% cut in real terms in 2023-24.

- The Housing Support and Homelessness budget being cut by 5% in real terms.

- Spending on the Just Transition Fund next year being cut by over 75%, with commitment only to fund existing projects next year.

- The 2023-24 cut to the Scottish Funding Council by just over £100m (5%) being made permanent, which implies (among other things) a further reduction in first-year university places for domiciled students. This will further reinforce an issue that was highlighted by the Institute for Fiscal Studies – that tuition is free only for Scottish-domiciled students who get a place, but those places are capped and the numbers are set to be reduced further.

- Scottish Forestry's woodland grants scheme being cut by over 40%.

- Local government capital grants being reduced by over 20% in real terms across both general and specific grants.

Tax decisions made at the Budget

The announcements on tax dominated discussion on the day, but in reality they did little to materially change the outlook of the Budget.

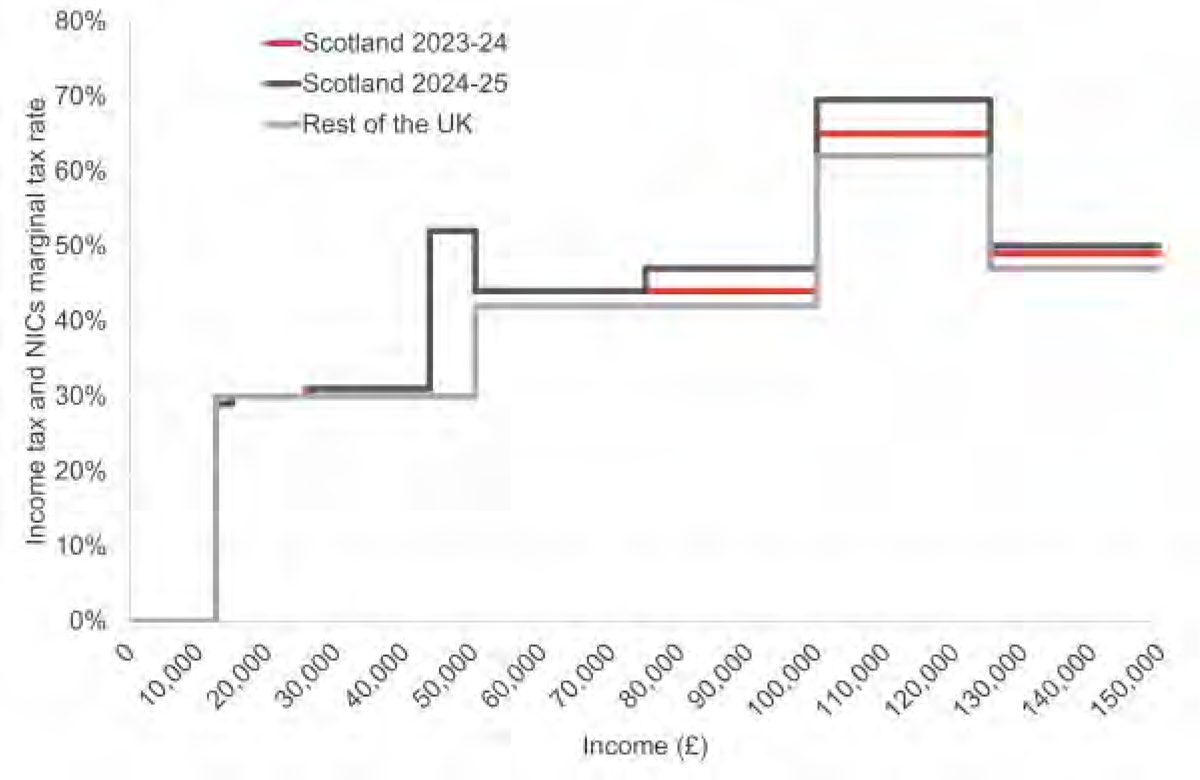
The new 'advanced' rate for earnings between £75,000 and £125,140 is expected by the SFC to raise around £75m – not nothing, but not a step change in revenues. The increase in the top rate also raises less than £10m.

In fact, the combined tax measures – when including non-domestic rates (NDR) – raise only around £50m in 2024-25. The NDR package maintains the main poundage just below that in place in other UK nations, but some of that revenue lost is clawed back by further increasing the poundage paid by those at higher rateable values.

In fact, many of the largest revenue raisers of this Budget were non-decisions, such as the non-uprating of the higher rate threshold, which means receipts are £300m higher than they would have been in the absence of inflation indexation. The continued absence of uprating of this threshold also continues to perpetuate higher marginal tax rates in Scotland for those earning between £43,663 and £50,270 than for those between £50,271 and £100,000.

Looking at the marginal tax rate schedule, the divergence between Scotland and the rest of the UK become very clear too – there is a minor (less than 50p a week) benefit to those below median earnings in Scotland, but the marginal tax rate of someone on £75,000 in Scotland is now the same as that for someone paying the highest rate of income tax in the rest of the UK.

Chart: Marginal tax rates for an employee, Scotland and the rest of the UK



Source: Scottish Government, HM Revenue and Customs, FAI calculations

Transparency

There are some improvements we would like to see made to the transparency of both documentation and announcements at the Scottish Budget, and which we see as crucial for improvement the quality of the public debate.

The announcement of the uprating of the starter and basic bands felt opaque. While technically true, the word ‘band’ did a lot of the heavy lifting. One might think that this meant for example that the point at which one starts to pay the basic (rather than the starter) rate has increased by inflation, so it would mean that if one were only paying the starter rate, and one’s pay went up by inflation, one would remain only paying the starter rate.

But that is not true. Instead, the size of the band was increased by inflation. As the table below makes clear, that means fiscal drag is still affecting some at the lower end of the income distribution, over and above the personal allowance freeze by the UK Government. This little publicised different means the uprating also cost the Scottish Government as much as £35m less than it would otherwise have done.

The Scottish Government has done this before, and we will now assume that it will do so in future. It might also rightly point out that this matches the way it legislates, as the bands are set in reference to the personal allowance. And that is true, but the confusion is not helped by the fact that it immediately refers in the documents to the higher rate threshold being a specific number. But in legal terms, the higher rate threshold is also not the £43,663 that they refer to, but rather £31,093 above the personal allowance. So the mixing in of similar but different concepts – especially when used in different ways to what the UK Government uses – does not help with transparency.

Table: Scottish Income Tax bands in 2023-24, 2024-25 and if thresholds had been indexed with inflation

		Starter rate (19p)	**Basic rate (20p)**	**Intermediate rate (21p)**
2023-24	Starts at	£12,571	£14,733	£25,689
	Ends at	£14,732	£25,688	£43,662
2024-25 (band increased with inflation)	Starts at	£12,571	£14,877	£26,562
	Ends at	£14,876	£26,561	£43,662
	% increase in band	6.7%	6.7%	-4.9%
	% increase in threshold	1.0%	3.4%	0.0%
If threshold increased with inflation	Starts at	£12,571	£15,720	£27,410
	Ends at	£15,719	£27,409	£43,662
	% increase in band	45.7%	6.7%	-9.6%
	% increase in threshold	6.7%	6.7%	0.0%

Source: Scottish Government, SFC, FAI calculations

In terms of portfolios and comparisons across years, we welcome some additional transparency releases that have happened. The Scottish Government has made it easier to access outturn data at level 2, and we look forward to that being broken down into different components (fiscal resource, non-cash, capital, financial transactions and UK Government-funded AME), which will further help comparisons across time. Similarly, we welcomed the publication of the revised portfolio figures at the Autumn Budget Review, although again, we would like to see more resource and capital splits.

The reasons for the Scottish Government only publishing one-year projections for portfolio and more disaggregated spending lines are understandable, but we continue to urge longer-term planning and publication, even if they are subject to change. This interacts with a lot of the decisions made for both the 2023-24 and 2024-25 Budgets, and which talk in many places about re-profiling of capital spending. This makes it sounds like the spending will eventually happen, but given the capital settlement and the projects already planned (as shown in the MTFS), that cannot be true for all of them. The MTFS had a shortfall in capital funding in every year, and therefore shifting spending from one year to the next only exacerbates the problem – and means that there are capital projects currently planned which will not take place. It would help the public debate enormously if the Scottish Government were more transparent in this regard.

Finally, we would like the Scottish Government to publish all the charts and tables from the Budget and MTFS documents, including the ones in the body of the document, in a separate spreadsheet for download, and which includes the data for each of the charts, just like the SFC does for their own publication. This is not a major piece of work – the numbers are clearly all created in that format anyway, and would make it much easier for everyone to do analysis quickly rather than having to transpose unwieldy PDF tables into Excel. It would also be a good opportunity to standardise tables and definitions of budgets across them, so that calculations are more meaningful on the day. It would also make it easier to include or exclude items that make comparisons difficult across time (e.g. UK Government-funded AME for pensions, which can change depending on the SCAPE rate) at speed.

Who we are

The Fraser of Allander Institute (FAI) is a leading independent economic research institute based at the University of Strathclyde, a registered charity in Scotland.

The FAI is different from traditional academic institutes in that it combines internationally renowned researchers with knowledge exchange specialists who have significant experience from the public and private sectors. This ensures that the Institute's analysis is not only cutting edge, but delivered in a way which is accessible and relevant. Institute staff are regularly called upon to provide independent briefing and advice to government, parliament and industry.

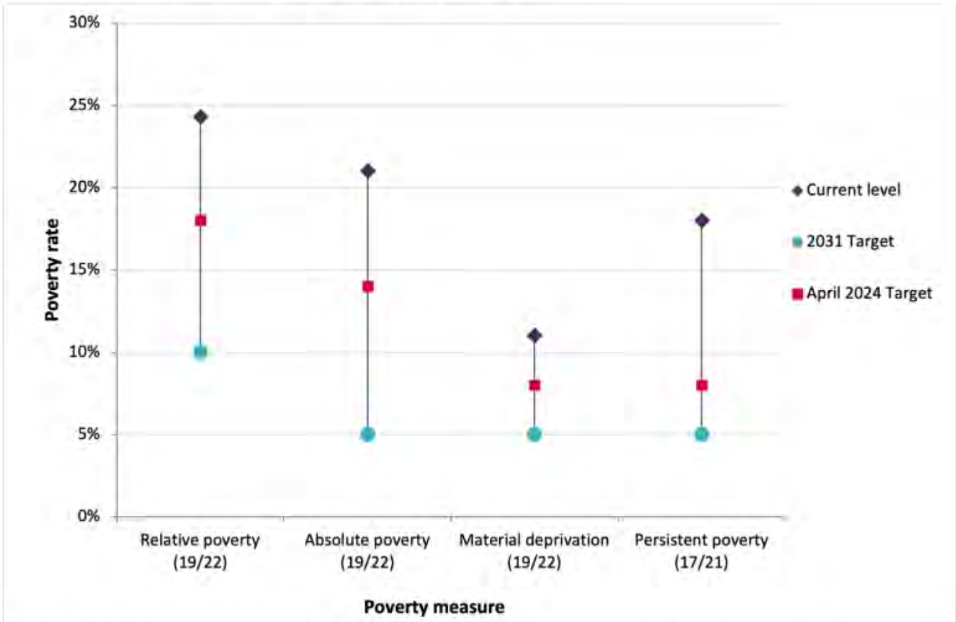
We have an excellent reputation for independence and impartiality. This ensures that our studies carry significant weight and impact amongst the business and policy community.

Written Submission from the Joseph Rowntree Foundation to the Finance and Public Administration Committee's scrutiny of the Scottish Budget 2024-25

Introduction

1. In 2017 the Scottish Parliament, unanimously, set the Scottish Government legally binding targets to reduce child poverty by 2030/31. The 2024/25 draft budget presented by the Scottish Government is, at best, a missed opportunity to quicken efforts to meet those and, at worst, may move us further away from them. It is worth remembering that the 2024-25 budget is one of only five budgets that can realistically impact on the 2030-31 targets.
2. While an obvious political failure, most importantly, missing those targets means more children growing up in Scotland without the quality of life and security that we all deserve. After the trauma of the Covid-19 pandemic and the shock of the spike in inflation we can, and must, do better.
3. This figure taken from our recent Poverty in Scotland 2023 report[1] shows current progress towards each of the targets. It shows that significant additional effort is required to meet the 2030/31 targets, effort that is found wanting in this budget.

Figure 3: Distance from the child poverty targets



Source: JRF analysis of Households Before Average Income and Scottish Government Poverty and Income Inequality analysis (2023a)

Affordable housing

4. JRF are often cited as showing that the comparative affordability of housing in Scotland is one of the main reasons that poverty rates in Scotland are lower than elsewhere in

[1] https://www.jrf.org.uk/work/poverty-in-scotland-2023#:~:text=Main%20findings%3A,living%20in%20very%20deep%20poverty.

the UK.[2] There has been a shift to the Private Rented Sector in Scotland but it has not been as great as elsewhere in the UK. The result of which has been to protect more people in Scotland from high housing costs. We recently underlined this point in Poverty in Scotland 2023 where we examined in-work poverty in detail. We found a shift of those in in-work poverty away from the PRS into social housing:

"In some ways this story of a shift in where those in in-work poverty live is a positive story. In 2011–14, almost one in three people experiencing in-work poverty were pulled into poverty due to their housing costs alone. In recent years this has fallen to one in five, but still means there are 110,000 people experiencing in-work poverty who were pulled into poverty due to their housing costs, including at least 30,000 children and 80,000 adults."

5. This shows that Scottish Government intervention has had a positive impact on poverty levels while showing housing policy's importance to broader policy outcomes. Specifically showing that where housing affordability is delivered for families it makes it more likely that their incomes from work will protect them from poverty.

6. Clearly, however, the cracks are already showing in the availability and affordability of housing in Scotland. With both Glasgow and Edinburgh City Councils having recently declared housing emergencies, following Argyll and Bute, and with temporary accommodation levels stubbornly at some of their highest levels ever.

7. On top of this the latest housing statistics show a concerning choking-off of supply of affordable homes in Scotland with approvals down by almost 15% (and more for social and affordable rent) and completions down by almost a quarter (and by nearly 30% for social rent).[3] Clearly part of this downturn is the overall cost of housebuilding caused by recent inflation and the Scottish Government have been engaged with local government, the RSLs and the broader industry to discuss this.

8. In this context it is therefore baffling that the affordable housing supply programme should be the victim of such a brutal cut as the one announced in the 2024-25 draft budget. To slice a quarter from the budget in the face of both the immediate and longer terms issues facing the housing sector in Scotland is surely something that will have to be reversed during the Parliament's scrutiny of the budget. If this is a "hard choice" as part of the budget it is the wrong choice.

9. Housing is a not a silver bullet for all policy challenges but it impacts on so many. As already noted, it means people's wages go further. Linked to that, the Scottish Government's investment in the Scottish Child Payment will be undermined if households with children's rents go up – with the poverty reducing potential of the payment being subsumed by families keeping a roof over their heads.

10. And this is not to mention the crucial impacts beyond rents that good quality and affordable housing can have. Energy efficient housing keeps costs down. Good quality

[2] We first showed this in Poverty in Scotland 2019 (https://www.jrf.org.uk/work/poverty-in-scotland-2019) and this remains true today.

[3] https://www.gov.scot/binaries/content/documents/govscot/publications/statistics/2023/12/quarterly-housing-statistics-december-2023/documents/housing-statistics-for-scotland-quarterly-update-new-housebuilding-and-affordable-housing-supply-to-end-september2023/housing-statistics-for-scotland-quarterly-update-new-housebuilding-and-affordable-housing-supply-to-end-september2023/govscot%3Adocument/December%2B2023%2B-%2BQuarterly%2BHousing%2BStatistics%2BUpdate.pdf

housing prevents health conditions related to poor housing such as lack of adequate ventilation and condensation and mould. Well planned and connected housing opens up access to services and work.

11. In our view, this cut must be reversed while the Scottish Government redoubles efforts to work with the wider sector to take on the immediate emergency and put the Affordable Housing Supply Programme back on a sustainable path to meeting its longer term objectives.

Other poverty related spending lines

12. There were also a number of notable issues elsewhere in the budget:

    a) While the overall protection of the social security budget is welcome, it is disappointing that the Scottish Government failed to meet the First Minister's commitment to raise the child payment to £30 a week. As noted above, delivering a budget equivalent to this year's will not meet the child poverty reduction targets.

    b) The cost of living crisis is still raging around us and there is little additional support for people in immediate crisis. The protection of the Scottish Welfare Fund's budget is welcome but it is already under significant demand and an increase in it would have been welcome. It also appears that the Fuel Insecurity Fund has been cut.

    c) Best Start, Bright Futures (the Scottish Government's second Tackling Child Poverty Delivery Plan) made much of its additional commitments to employability support for parents but since then those budgets appear to have been cut back[4]. Similarly the Parental Employability Support Fund that was announced in that plan has also been cut. Again bringing into question whether there is any additional action in this budget that will push us forward in meeting the child poverty reduction targets.

    d) Families with experience of poverty often tell us of the strains that struggling to get by put on their mental health and we have also seen the additional strain that the cost of living crisis has put on low-income families' mental wellbeing[5]. In this context the real-terms cut to mental health funding is concerning. Fundamentally good mental health is a protection against poverty as bad mental health hinders families' abilities to participate fully in society and secure a decent income.

    e) The Scottish Government may complain that these additional issues, as well as the housing one, are requests for additional funding and that their budget is already committed – yet money was found in this budget for a freeze to council tax. That freeze has an, at best, modest impact on the incomes of low income households and will have little or no measurable impact on poverty levels. Yet the Scottish Government have allocated £144 million to councils to pay for that freeze. Even if that funding level of the freeze survives the

[4] It is worth noting that employability spend is particularly opaque and it is difficult to judge what is available now compared to previous years.

[5] https://www.jrf.org.uk/reduce-poverty-protect-the-nhs-improve-lives

budget process it could have been used far more effectively to reduce poverty via different means.[6] Council tax has had its day and is regressive – yet we have political stasis in changing it.

The longer term view

13. While the decisions in this year's budgets run the risk of making poverty worse in Scotland it is also indicative of a broader issue. Meeting the poverty reduction targets for 2030/31 require fundamental changes to the Scottish Government's budget and priorities. And this does not operate in a vacuum – demands on social care, carbon reduction, childcare, mental health support, transport and the NHS (to name just a few) are significant. But these issues all interact with each other.

14. In Scotland health inequalities are shocking in their scale – with around a 25 year difference between healthy life expectancy in our least and most well-off areas. This cannot be morally acceptable and as we reported with IPPR Scotland and Save the Children earlier this year it is costing us as individuals and as a society[7]. Two findings from that report are worth repeating:

    a) people over the age of 30 who had experienced poverty during their childhood have around 25 per cent lower income than those who didn't;

    b) the unemployment rate among individuals over 25 who experienced child poverty is much higher (16 per cent) than the rate among those who had not (2 per cent).

15. By failing to tackle child poverty we are perpetuating the issues that our society faces. Creating a vicious circle that we choose to maintain. The Scottish Fiscal Commission's analysis[8] of current spending highlights another symptom of our failure to reduce poverty. It is putting a greater weight on the impact of the cost of living crisis on demand for adult disability payments, underlining that the cost of living crisis and people's inability to afford, or their anxieties about being able to do so, damage their health.

16. As a result it is incumbent on the Scottish Government and each of the opposition parties and MSPs to move the debate from single budget lines to more fundamental questions about how we raise and spend public money. We face an existential threat to our societies due to the climate challenge and one that we must meet. But that also creates an opportunity for us to create a society that is in greater harmony with our planet but also promotes a more equitable outcome for our people.

17. It requires a deeper discussion of how public services are provided. Not a binary choice between whether some things are universal or targeted but about how we contribute as a society towards them (whether through taxation, other contributions or charges) as well as a better understanding of our expectations of them. If we as a society desire universally available services, such as the NHS, across a broader spectrum of services (such as social care and child care) then we need to work together

[6] See IPPR Scotland for an analysis of how it could have been used via the Scottish Child Payment - https://www.ippr.org/news-and-media/press-releases/10-000-children-left-in-poverty-by-ineffectual-council-tax-freeze-ippr-scotland-says

[7] https://www.ippr.org/files/2023-05/tipping-the-scales-may23.pdf

[8] https://www.fiscalcommission.scot/publications/scotlands-economic-and-fiscal-forecasts-december-2023/

to decide how to pay for them. Stretching those services and the people who work within them to breaking point is not a sustainable option.

18. It also requires us to rethink how decisions are made and how they are made closest to the people who are impacted by them. Too many communities are still, in both rural and urban areas, distant in every sense from the decisions that are apparently made on their behalf. Power is still highly concentrated in Scotland.
19. We also need to stop binary discussions about the economy and "social issues" being somehow distinct. Economic growth will not solve poverty – government decisions to facilitate poverty reduction will. Those decisions may be easier in a setting where economic growth inflates public spending capacity but from where we are today, with deep inequality of income, wealth and power, would still require fundamental changes to how we as a society operate. That being said, we do need a flourishing business base in Scotland and things like Community Wealth Building point us towards how we can take the talent and ingenuity that we have and spread the gains of our endeavour more equitably.
20. In this budget the Scottish Government has made "hard choices" by making deep cuts to some areas of public spending while raising modest revenues by asking better off individuals to pay more in income tax. These are not the hard choices that we need to make and the sooner we get onto the more fundamental choices that we face, the better.

Chris Birt

JRF, January 2024

The 2024-25 Draft Scottish Budget: A Commentary

David Bell

Introduction

The 2024-25 Scottish budget was the most challenging budget faced by any Scottish administration since the beginning of devolution. It has resulted in very significant cuts in government programs. This squeeze on funding was largely predictable, but was itself the outcome of a set of adverse events, both national and international, as well as policy decisions made by both the UK and Scottish Governments. This paper sets out the context for the budget, discusses the budget itself, including prioritisation of programs implicit in the budgetary decisions. Finally, it explores the issue of whether our governmental structures are fit for purpose in such a new and challenging fiscal environment.

Context

At the start of the 2023-24 fiscal year, inflation, exacerbated by the pandemic and the energy crisis, was at levels not seen since the early 1970s. In the UK, inflation drove borrowing costs higher as the Bank of England strove to reduce price increases to the target rate of 2%. This added to the cost-of-living crisis as household costs for servicing debt, particularly mortgage costs, spiralled. The UK government also faced increased debt servicing costs. The UK has seen the largest increase in costs to manage its debt of all G7 countries: 8.7% of its total receipts went on debt servicing charges in 2022. This compares with an average 4.1% among G7 economies and is an unwelcome downward pressure on spending in support of public services[1].

Workers responded to the cost-of-living crisis caused by spiralling prices, particularly for energy, by negotiating for higher wages to restore their living standards. Some of these wage demands were felt in the public sector, which added further to the pressure on government budgets. However, although the economy was largely stagnant, higher prices and wages added to tax receipts, providing an unexpected bonus for the Chancellor's Autumn statement released last November.

The extra revenue is partly dependent on "fiscal drag". This process involves fixing tax thresholds in money terms, rather than adjusting them for inflation. With prices and wages rising at the same rate, workers real living standards are constant. But if tax thresholds are not adjusted for inflation, more taxpayers are drawn into higher tax bands, meaning that they are contributing a higher proportion of their income to the state.

Both the UK and Scottish governments are now using fiscal drag to boost revenues and thus offset the increased costs that government faces due to inflation. It is expected that fiscal drag will add around £51 billion to UK government revenues by 2027-28. However, some of this extra revenue is being returned to employees through a reduction in the main rate of National Insurance from 12% to 10% and the self-employment rate from 9% to 8%. These tax cuts will benefit around 30 million workers including those on low to middle incomes and cost around £10 billion per year. It will not

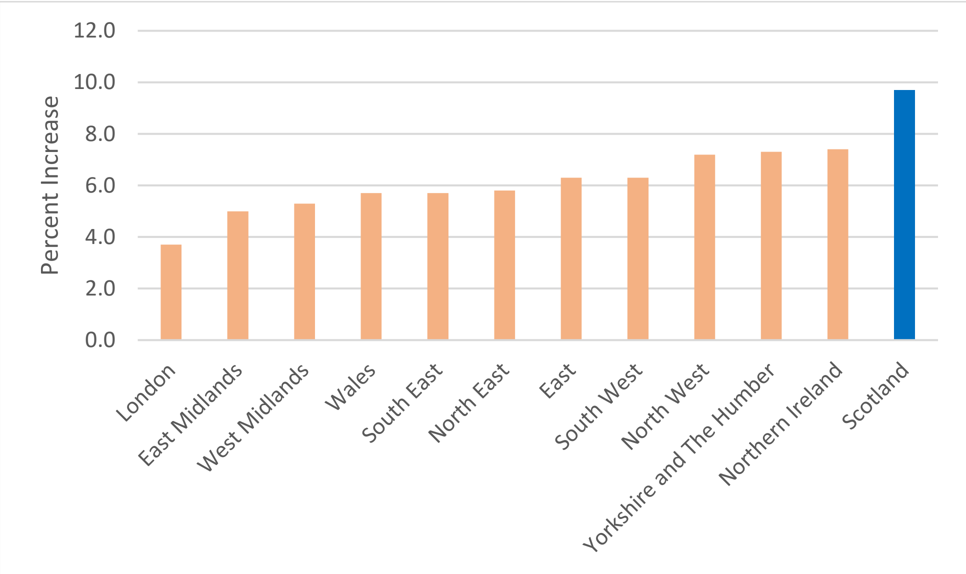
[1] Office of Budget Responsibility (2023) Economic and Fiscal Outlook November 2023. Note: an important explanation of the high debt servicing charges faced by the UK government is the high proportion of debt that is indexed linked and the increasing share of short maturity debt in its portfolio.

benefit pensioners who do not pay National Insurance, nor those who receive income from savings and dividends.

For the Scottish Government, the measures in the Autumn statement had little effect on the funds coming to Holyrood, because National Insurance is a UK wide tax. And since the Chancellor made relatively little change in spending plans for "comparable" areas that fall within the remit of the Barnett Formula, the effect on Scotland's block grant was relatively minor.

The industrial unrest caused by price inflation spread to the public sector. The Scottish Government response was generally more accommodating than that of the UK Government, which partly explains why the growth in wages in Scotland between 2022 and 2023 exceeded that in other parts of the UK. The Office for National Statistics explains why median wages grew faster in Scotland, as shown in Figure 1, by arguing that "Scotland's high growth rate is, in part, affected by the NHS Scotland pay rises and one-off payments which were implemented in April 2023"[2].

Figure 1: Annual Percentage Change in Median Gross Weekly Earnings for Full-Time Employees April 2022 to April 2023



Higher public sector pay increases income tax receipts for the Scottish Government. That has a direct effect on the expenditure side of the Scottish budget. But it also boosts income tax receipts in Scotland relative to those in other parts of the UK. This is important, because the reduction in Scotland's block grant attributed to income tax - the income tax BGA - is tied to income tax growth in England and Northern Ireland[3]. If tax receipts are growing more slowly south of the border, then the net income tax position (income tax raised in Scotland *less* the income tax BGA) will be positive, thus increasing the Scottish Government's ability to spend. Note however that since the public sector comprises only around 20% of all employees, the direct effects of increased pay for this group will substantially exceed any indirect adjustment to the income tax BGA.

The Scottish Government has also taken control over some social security benefits that were previously managed by the Department for Work and Pensions. Expenditure on these benefits now competes with other calls on the Scottish Government budget. The Scottish Government receives compensation from the UK government for the costs of these benefits through a different form of

[2] Office for National statistics (2023) "Employee Earnings in the UK: 2023"
[3] Adjusted for relative population growth.

BGA. It is determined by Scotland's population share of spending on equivalent benefits in other parts of the UK - effectively the same mechanism as the Barnett Formula. The net effect on Scotland's budget is determined by whether benefit provision in Scotland is more generous than the equivalent spend in the rest of the UK. In May 2023, the SFC forecast that Social Security payments in 2024-25 would cost £953m more than the compensation the Scottish Government will receive from the UK Government. In December 2023 it increased that forecast to £1092 million, most of which is made up by new benefits such as the Child Payment, for which there is no rUK equivalent and therefore no corresponding payment.

This context provided the backdrop to the 2024-25 Scottish Government budget. The Scottish Government was undoubtedly aware of this and had been alerted earlier in the year to the difficulties it was facing. The Scottish Fiscal Commission (SFC) forecasts in May 2023 argued that the Scottish Government's Medium-Term Financial Strategy (MTFS)[4] "shows spending growing more quickly than funding in the central scenario, presenting a challenge for the government in setting the budget in future years"[5]. This was a polite way of saying that the Scottish Government's financial plans were not sustainable. The main fiscal event since May 2023 was the Chancellor's Autumn statement, but as argued earlier, it did not provide significant relief for the Scottish Government in the form of increases in block grant funding and indeed made the outlook for capital funding even more bleak.

The Draft 2024-25 Budget

This section deals with the draft budget, focusing on its key elements and the major changes that it proposes. It first deals with tax, then with resource spending and finally with capital spending.

Tax

The main tax changes proposed in the 2024-25 budget are intended to increase income tax. Previous freezing of tax thresholds have generated around £1.5 billion worth of fiscal drag. The Scottish Rate Resolution for 2024-25 proposes additional freezing of thresholds along with: an intermediate rate charged at 21% for those earning between £13,991 and £30,192 above the personal allowance of £12,570; a higher rate of 42% charged on income between £31,092 and £62,430; an advanced rate of 45% charged on income above £62,430 and up to £125,140 and finally a top rate of 48% chargeable on income above £125,140.

To fully understand the consequences on the Scottish budget of changes in income tax rates and bands, four factors need to be considered. These are:

1. Mechanical - the amount that would be raised assuming that workers do not change their work habits in response to the policy change.
2. Behavioural - the amount raised after taking account of changes in worker participation, tax avoidance and tax evasion resulting from the policy change.
3. Migration - the effect on revenues caused by individuals choosing either to move from Scotland or not move to Scotland in response to the policy.
4. Relative growth - for the Scottish budget, it is not total income tax revenue that matters, but rather the income tax "net position". This is the difference between the total revenue raised from Scottish taxpayers *less* the corresponding adjustment to Scotland's block grant (the

[4] Scottish Government (2023) The Scottish Government's Medium-Term Financial Strategy
[5] Scottish Fiscal Commission (2023) "Scotland's economic and fiscal forecasts".

income tax BGA) which is determined by the growth of income tax receipts in England, adjusted by the relative size of Scotland's population.

This last effect tends to be ignored in popular debates about the effects of changes in Scotland's income tax policy. It is relevant because the Fiscal Framework[6], recently agreed between the Scottish and UK Governments, establishes the rules by which the Scotland's block grant from Westminster will be adjusted to account for the tax and social security powers that have been transferred from Westminster to Holyrood.

The powers of the Scottish Government to set the rates and bands of income tax have added substantial uncertainty to the budgetary process. This is because both the revenue from income tax itself and the associated income tax BGA must be forecast at the time of the budget, whereas the final outcome may not be known until two years later, due to delay in finalising income tax accounts.

The SFC has undertaken substantial work on estimating the behavioural and migration responses to changes in Scotland's tax rates and bands[7]. Its view, informed by this research, is that the mechanical response to the proposed changes would have added around £200m to Scotland's income tax revenues, but after accounting for the behavioural and migratory changes, the net effect will be reduced to £82m. More than half of the potential revenue is expected to be lost due to these effects.

Figure 2 shows the marginal tax rates that will apply to income tax payers in Scotland in fiscal year 2024-25. It shows not so much a progressive tax schedule as a disjointed tax schedule. The highest marginal rate is 69.5% which is payable on incomes between £100,000 and £125,000: on higher incomes, the marginal rate falls to 48%. The 69.5% rate is possibly the highest marginal tax rate in any OECD country: for example, the highest marginal tax rates on employee earnings in Denmark is 55.5%, in France 42.2% and in Sweden 55.2%[8]. It has come about from the interaction of the rule set by the UK government for the withdrawal of the personal allowance and the new "advanced" rate set by the Scottish Government.

Figure 3 shows how marginal rates in Scotland and England will compare once the Scottish Government proposals are put into effect. It demonstrates that the withdrawal of the personal allowance also results in a high marginal rate in England, though one that is 7.5% less than its Scottish equivalent. It also shows how differences in the setting of income tax thresholds cause spikes and subsequent falls in Scottish marginal rates due to the interaction with National Insurance.

Although the overall effect of the combination of National Insurance and income tax is progressive - higher earners contribute a larger proportion of their incomes - their interaction causes anomalies which may have adverse effects on worker engagement with the labour market. Decisions taken by the Scottish Government seem to amplify rather than attenuate these effects. It has long been argued that there is a strong case for reforming the UK tax system. In relation to taxing workers incomes, these recent policy changes suggest that the case for reform remains strong and is one in which the devolved governments should be engaged. Clearly the Scottish Government must also pay particular attention to the outcomes of the changes in income tax that it proposes in terms of their impact both on economic activity and on government finances.

---

[6] Scottish Government (2023) Fiscal Framework: Agreement between the Scottish and UK Governments
[7] Scottish Fiscal Commission (2018) How We Forecast Behavioural Responses to Income Tax Policy
[8] OECD (2023) Marginal personal income tax and social security contribution rates on gross labour income

Figure 2: Marginal Tax Rates in Scotland: Proposals for 2024-25

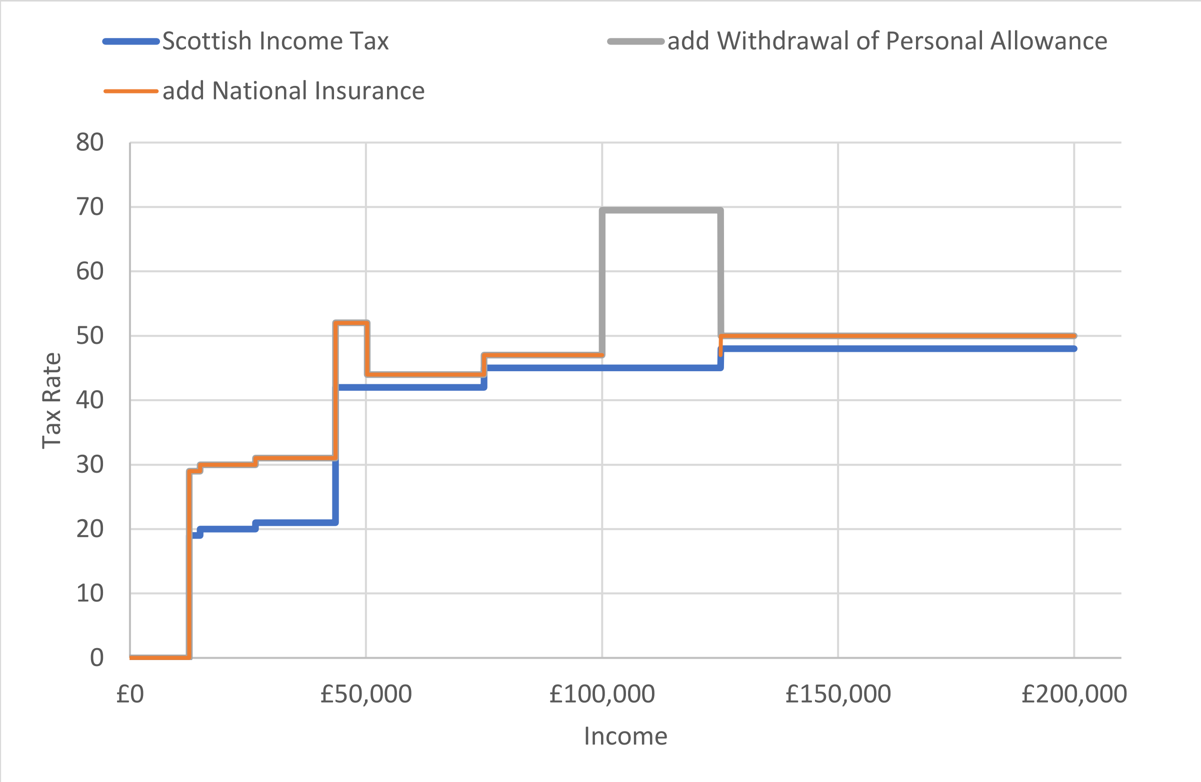
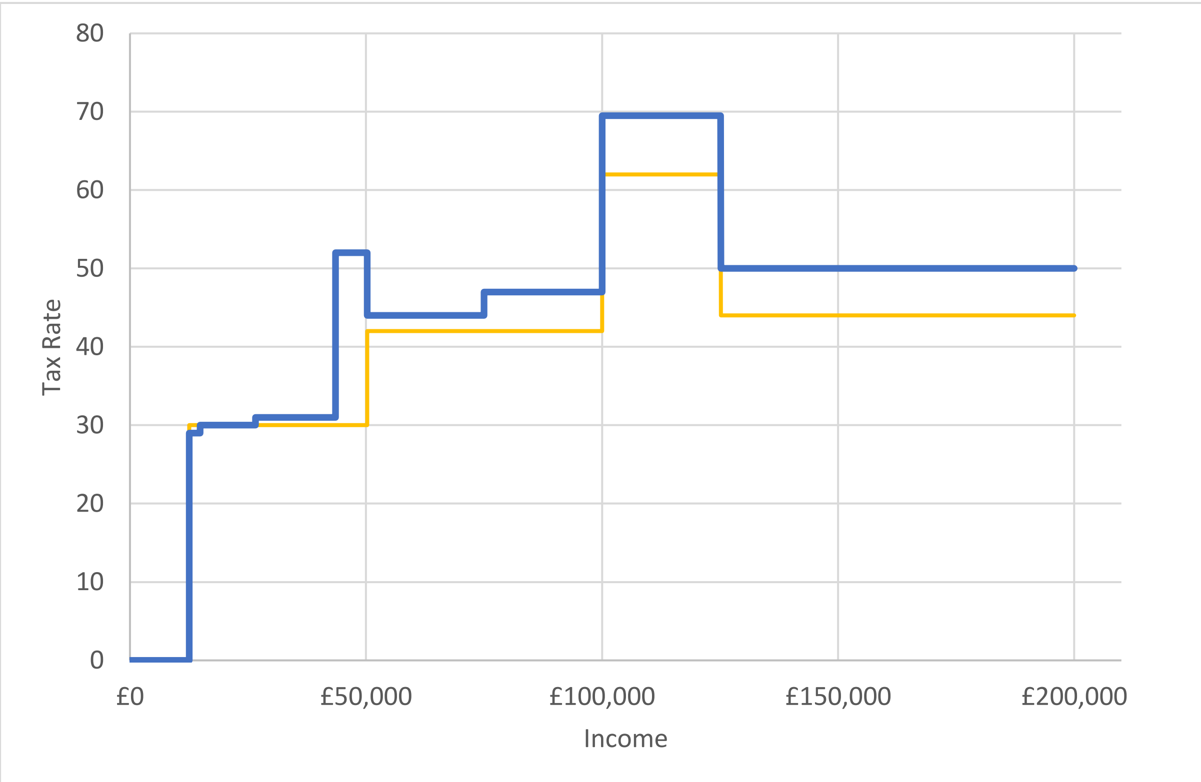


Figure 3: Marginal Tax Rates in Scotland and England



Spending

Table 1 below shows resource (excluding AME and non-cash funding) and capital budgets (in 2022-23 prices) for 2022-23 and 2024-25 (in 2022-23 prices). Faced with the significant budget shortfall mentioned previously, this table shows the implicit prioritisations that the Scottish Government has made for Level 1 budgets. For resource spending, Social Justice is a clear winner, driven largely by increased social security spending. Along with Constitution, External affairs and Culture, Rural and Island budgets (including agriculture) must deal with significant real cuts in their budgets. The NHS, social care and education & skills will have to make efficiencies or cut back on some activities. Local government has also been squeezed and argues that it has not been given sufficient compensation for the freezing of council tax.

Level I resource budgets show significant variation in real growth rates between 2022-23 and 2024-25. When one drills down to Level 4 budgets, there is even greater variation, with some programs experiencing quite drastic reductions in funding.

The cuts in capital spending are even more dramatic than those to resource spending. The SFC argued in its December 2023 forecast that "Capital budgets are under significant pressure with capital funding expected to fall by 20% in real terms between 2023-24 and 2028-29"[9] This issue primarily stems from decisions by the Westminster government to keep capital spending fixed in nominal terms, leading to real terms reductions.

Table 1: Levels and Real Changes in Resource and Capital Spending, 2022-23 to 2024-25

	Resource (£m)			Capital (£m)		
	2022-23	2024-25 at 2022-23 prices	Percent Change	2022-23	2024-25 at 2022-23 prices	Percent Change
Deputy First Minister and Finance	8,451	8,043	-4.8%	758.4	609.50	-19.63%
Wellbeing Economy, Fair Work and Energy	449	402	-10.5%	904.4	691.79	-23.51%
Transport, Net Zero & Just Transition	1,449	1,423	-1.8%	3,111.2	2280.49	-26.70%
Constitution, External Affairs and Culture	297	253	-14.9%	37.1	22.13	-40.28%
Rural Affairs, Land Reform and Islands	925	806	-12.9%	216.9	132.22	-39.03%
NHS Recovery, Health and Social Care	16,752	16,054	-4.2%	647.4	721.89	11.51%
Education & Skills	2,900	2,743	-5.4%	508.6	480.23	-5.58%
Crown Office and Procurator Fiscal Service	168	179	6.4%	7.8	8.50	9.53%
Social Justice	4,709	6,986	48.4%	841.8	494.72	-41.23%

The cuts to capital spending are unfortunate, given that low investment is acknowledged to be one of the key impediments to growth both at the Scottish and UK levels. Previously, I have argued to this committee that public sector investment helps de-risk private investment and therefore cutting public investment will adversely affect overall levels of investment in the Scottish economy and consequently growth. The Resolution Foundation[10] has argued that the UK Treasury has allowed public investment to be both too low and too volatile. It advocates that UK fiscal rules should be

[9] Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts-December 2023
[10] Resolution Foundation (2023) The Economy 2013 Enquiry: Final Report

reformed to ensure that public investment should be at least 3% of GDP and that the focus should be on the quality of that investment, rather than constantly adjusting the quantity.

Fiscal Control in Scotland

The 2024-25 budget has been the most difficult that the Scottish Government has had to confront. A wide set of circumstances driven by political and economic pressures from overseas and within the UK have led to a situation where significant reductions have been made to established programs at short notice. Many resource and capital budgets will be under extreme pressure in 2024-25. The experience of this budget highlights the need to extend and invigorate the process of public sector reform. There must be greater focus on improving productivity in public services.

That there would be pressure on the 2024-25 Scottish budget has been evident for some time. Late adjustments to budgets reduce options for consultation and planning and hence may result in suboptimal outcomes. Some of the uncertainty around the budget is attributable to having to wait for the Autumn Statement before key building blocks of the budget become known. Nevertheless, the Scottish budget having to follow shortly after the Chancellor's statement has been the pattern for many years. However, in the run-up to their publication, previous Scottish budgets have not been flagged as requiring such significant cuts as have been associated with the 2024-25 budget.

This raises the question of whether the current system of fiscal controls in Scotland are sufficient to deal with the extension to the tax and social security powers which have gradually been implemented following the 2016 Scotland Act. The Finance and Public Administration Committee scrutinises the budget; the Scottish Fiscal Commission produces biannual forecasts for the Scottish Government which inform the budget; Audit Scotland analyses whether public funds are being used effectively; but there is no equivalent to the Finance Ministry which exists in many subnational jurisdictions. For example, the Canadian Federation "may be considered a significant case of reconciliation between two potentially contradictory objectives - namely, the promotion of diversity and the preservation of a common system of public management"[11]. This publication explains how different levels of government within Canada, including Québec, work together to produce a coherent budgetary framework[12]. This may be a step too far at present for the Scottish Government, but there is a need to focus minds on why the 2024-25 budgetary round seems to have been particularly difficult.

[11] L'Observatoire de L'Adminstration Publique (2011) Fiscal Governance in Canada: a Comparison of the Budget Practices and Processes of the Federal Government and the Governments of the Provinces and Territories

[12] I am indebted to François Vaillancourt, CIRANO, Montréal for useful correspondence on this issue

Carnegie UK
Andrew Carnegie House
Pittencrieff Street
Dunfermline
Fife Scotland
KY12 8AW
T 01383 721445
carnegieuk.org

Kenneth Gibson MSP
Convener
Finance and Public Administration Committee
Scottish Parliament

22 December 2023

By email

Dear Convener,

Finance and Public Administration Committee's Budget Scrutiny 2024-25

Thank you for the invitation to provide evidence to your committee as you begin scrutiny of the Scottish Government's draft budget for 2024-25.

As you will know, Carnegie UK is an independent charitable foundation established with an endowment from Andrew Carnegie over 100 years ago. Our purpose is better wellbeing for people in the UK and Ireland.

For Carnegie UK, collective wellbeing is about everyone having what they need to live well now and in the future. We have identified four aspects of collective wellbeing:

- Social wellbeing: We all have the support and services we need to thrive.
- Economic wellbeing: We all have a decent minimum living standard.
- Environmental wellbeing: We all live within the planet's natural resources.
- Democratic wellbeing: We all have a voice in decisions that affect us.

The Scottish Government's budget choices have a significant and wide-ranging impact upon the collective wellbeing of the people of Scotland, now and in the future.

We recognise that Ministers face difficult tax and spending decisions. We also understand that the Scottish Government, and your committee, will have access to in-depth and wide-ranging evidence from many experts and interest groups. We have therefore focussed here on the areas in which Carnegie UK can offer distinctive insight and expertise.

National Performance Framework

As your committee knows, Carnegie UK has a long-standing interest in the National Performance Framework (NPF).

The NPF articulates the Scottish Government's purpose to create "a more successful country with opportunities for all of Scotland to flourish through increased wellbeing, and sustainable and inclusive economic growth".

As we outlined in earlier evidence to your committee, we believe that the NPF's "national indicators provide Government with a wealth of data through which to understand wellbeing and identify emerging threats and opportunities. In order to realise the potential of Scotland's wellbeing framework, Government officials should use this data more explicitly to shape policy, to guide policy appraisal and funding decisions, and to communicate these to the public."[1]

We agree with the conclusions of your committee's report 'National Performance Framework: Ambitions into Action'[2] that the NPF is not currently seen to drive financial decisions, nor as a mechanism by which organisations are held to account for spending effectively. We were also supportive of the committee's observations in that report about the need for a closer alignment between the NPF and those who advise and take funding decisions in the Scottish Government; about the relationship with local government; about the need for funding to be used to incentivise collaboration, and the importance of commissioning and procurement aligning with the drive to improve outcomes linked to the NPF.

While it is encouraging to see that Scotland's statutory national outcomes are cited throughout the budget document (through not referenced in the Deputy First Minister's statement), it may be useful for the committee to explore with Ministers whether these outcomes were considered at the outset of budget development and used to shape decision-making and resource-allocation. Furthermore, it is unclear whether the outcomes that we are currently furthest from realising have received additional resources (or have had their resources systematically protected) in this budget process.

Democratic engagement with budget choices

In the foreword to the Scottish Budget, the Deputy First Minister states that "Budgets are about choices."

At Carnegie UK, we believe that people should have a voice in the decisions that affect their lives. Our MSPs play a crucial role in this regard, reflecting on the views and experiences of their constituents in all of their parliamentary work.

However, we would highlight to your committee the extremely low levels of democratic wellbeing in Scotland that we discovered in recent research.[3] Our Life in the UK Index, based on Ipsos polling of 1132 people from Scotland, found that the majority of people in Scotland feel that they cannot influence UK Government (79%), Scottish Government (60%) or local level

---

[1] Written Submission from Carnegie UK to Finance Committee https://www.parliament.scot/-/media/committ/5552

[2] National Performance Framework: Ambitions into Action https://sp-bpr-en-prod-cdnep.azureedge.net/published/FPA/2022/10/3/a3dd32cb-f846-42db-ada6-11f7e3da9390/FPAS622R8.pdf

[3] Life in the UK 2023 - Scotland report https://carnegieuktrust.org.uk/publications/liuk2023scotland/#:~:text=The%20Life%20in%20the%20UK,and%20democratic%20aspects%20of%20life.

decision makers (51%)

This research recommended that political parties, the Scottish Government and local councils should invest in fresh and sustained efforts to reverse the sense of alienation from local and national decision-making and increase opportunities for meaningful participation.

While the Community Empowerment (Scotland) Act (2015) facilitates participatory budgeting at a local level, Carnegie UK has not seen similar models adopted at a national level in Scotland.

The Finance and Public Administration Committee may therefore wish to ask Ministers to outline governmental efforts to involve citizens in the wider budget development process, or in the development of individual tax and spending decisions. We believe such models can not only help to build trust in our political systems, but also improve the quality of governmental decision-making.

Scottish Child Payment

Ahead of the budget, Carnegie UK joined a range of partner organisations in writing to the First Minister urging him to increase the Scottish Child Payment to £30 per week.

We did so because we believe that this policy has the capacity to make a meaningful change to levels of child poverty in Scotland, but only if it is pegged at the right level to make a difference and accompanied with other interventions in areas such as early learning and childcare.

Carnegie UK was therefore disappointed with the announcement that the payment would only see an inflationary increase.

Work by IPPR for Save the Children and the JRF suggests child poverty is costing the Scottish economy £2.4 billion a year.[4] Carnegie UK's research looking at the cost of living found that rising costs have forced families to make choices that are likely to have long-term consequences for their health and wellbeing. For example, research found that 34% of people in the UK aren't eating as healthily, while 16% have cut down on regular exercise.[5]

While there's a clear moral argument for reducing poverty, we would also advance the case that ineffective or under-resourced policies to tackle poverty, especially child poverty, will not substantially improve outcomes. And if outcomes – such as Scotland's public health record – do not improve, then we will continue to see increased pressure on our public services, like the NHS. This of course will drive up the future costs of failure demand.

[4] Child Poverty – Tipping the Scales - https://www.savethechildren.org.uk/blogs/2023/child-poverty-tipping-the-scales-in-scotland
[5] The long shadow of the cost of living emergency - https://carnegieuktrust.org.uk/publications/the-long-shadow-of-the-cost-of-living-emergency/

In this context, we would highlight to the committee the analysis conducted by IPPR Scotland that suggests that spending £140 million on the Scottish Child Payment as an alternative to freezing council tax would lift 10,000 children out of poverty.[6]

As your committee scrutinises the affordability of the Scottish Government's tax and spending plans, it may be useful to consider whether the proposed approach facilitates the preventative approach outlined in the Christie Commission over a decade ago.

We look forward to participating in the evidence session on 8 January.

Yours sincerely,

Sarah Davidson

Chief Executive

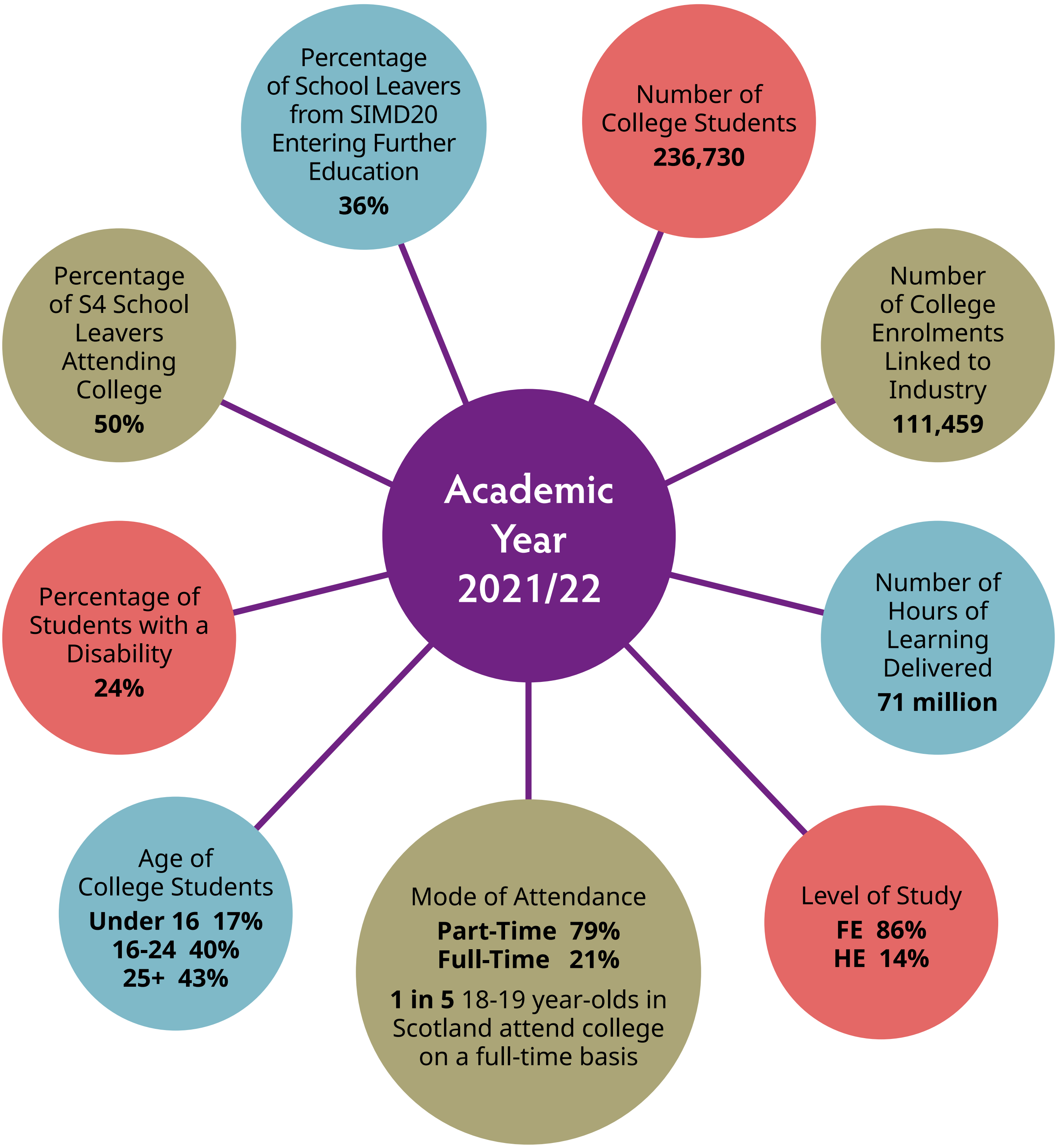
[6] Council tax freeze cash could have lifted 10,000 kids out of poverty - https://www.heraldscotland.com/news/24003208.council-tax-freeze-cash-lifted-10-000-kids-poverty/?ref=rss&utm_source=dlvr.it&utm_medium=twitter

Draft Budget Submission 2024/25

When Colleges Thrive, Scotland Thrives

Introduction

Colleges Scotland as the voice of the sector supports the delivery of thriving colleges at the heart of a thriving Scotland. Colleges Scotland, as the membership body, represents all 24 colleges in Scotland, which deliver both further education and around 13% of the provision of all higher education in Scotland.



Delivery of Education Reform Agenda

Colleges Scotland is seeking a leading role in the implementation of those recommendations identified as priorities by the Scottish Government in relation to the Skills Delivery Landscape Review, Independent Review of Qualifications and Assessment, and Purpose and Principles for Post-School Education, Research and Skills.

To maximise the opportunities emerging from these reviews, the Scottish Government should not overlook the significant capabilities of the college sector when prioritising investment as part of reshaping the critical national infrastructure that is our tertiary education system.

We wholeheartedly agree that our skills delivery landscape should aspire to be world-class and should offer a distinct competitive advantage for Scotland. That is why we are asking for 2024/25, that the Scottish Government makes up the gradual reductions in core college funding that have taken place in recent years and highlighted by Audit Scotland, and restore college revenue to make up for inflation.

Repurposing of the Education and Skills Budget

Colleges Scotland is seeking a repurposing of an element of the overall skills and education resource, currently sitting at £3.2billion in the 2023/24 Budget, to allow the college sector to deliver key Scottish Government priorities by establishing a new structural approach to skills delivery.

This would align with the vision detailed in the recent Independent Review of the Skills Delivery Landscape, led by James Withers, whilst reducing duplication and wastage within the system for the benefit of the public purse.

Repurposing Context

The Think the Unthinkable workstream taken forward by college sector leaders over the last twelve months has identified a number of potential changes to the delivery of skills, which were subsequently affirmed within the Skills Delivery Landscape Review.

Following discussions with the Minister for Higher and Further Education; and Minister for Veterans at the college sector's Think the Unthinkable Convention 6 in September 2023, Colleges Scotland will be providing further details on concrete and tangible models for the delivery of a future focused skills landscape, to provide reassurance to Scottish Government that the sector has the capacity and structures to deliver on these priorities.

These models will show how the college sector could deliver better returns on investment that contribute to more efficient use of resources, whilst at the same time contributing to the stability and sustainability of the college sector and delivering other Scottish Government outcomes and priorities.

These models will include work areas such as:

- Model for apprenticeship delivery
- Approach and model of a single funding body
- Future structure of skills planning and the college role
- Green skills delivery
- Models work, including Centres of Excellence.

Financial Context

The economic contribution of colleges in Scotland has been reinforced by the findings of Fraser of Allander Institute research completed in October 2023, which has evidenced the system wide impact of college graduates to the Scottish economy and the economic impact of the money that colleges spend. A repurposing of funding will enable this economic impact to be enhanced, for the benefit of the Scottish economy.

This latest research, which was launched in October 2023, shows that:

- For the 2021/22 graduation cohort, it is estimated that the Scottish economy in terms of GDP, will be cumulatively better off by **£8 billion** in present value terms over the long term, when compared to an economy without these skilled graduates. This is equivalent to a **£73,000 boost in productivity** per graduate to the Scottish economy.
- The Scottish Government's £740m investment, via the The Scottish Funding Council (SFC) in colleges in in 2021/22, led to a **£8bn boost** to the GDP of the Scottish economy and a **£2.8bn boost** to government revenues. The investment in this college cohort therefore represented **9%** of the return in terms of the boost in GDP, and **26%** in terms of the boost to government revenues.
- The 2016/17 – 2021/22 college graduation cohort is estimated to have made the Scottish economy cumulatively better off by around **£52bn** over their 40-year working life, when compared to a scenario without these skilled graduates, helping to boost labour productivity by 2% in the long run across the Scottish economy.

- College spend helps to support an additional **4,400 jobs** across the Scottish economy, of which 2,700 are directly supported by college supply chain spending, and the remaining 1,700 are supported across the wider economy, as purported by the Fraser of Allander Institute modelling.

Investment for Priorities

Investment will deliver significant gains for the three priorities identified by the Scottish Government:

- Equality – Tackling poverty and protecting people from harm
- Opportunity – A fair, green and growing economy
- Community – Prioritising our public services.

The investment will allow the college sector to help the Scottish Government deliver its agenda by continuing to:

- deliver significant progress in tackling the poverty-related attainment gap
- upskilling and reskilling of adult learners, helping them re-enter the workforce
- deliver the skilled workforce for Scotland as the leading national provider of skills
- deliver the Just Transition to Net-Zero and dealing with the skills emergencies
- deliver lifelong learning opportunities and work-based learning
- deliver against the National Outcomes of the National Performance Framework
- deliver the ambitions and objectives established in the National Strategy for Economic Transformation (NSET)
- deliver enhanced and increased partnerships with industry, Innovation Centres, schools and community stakeholders
- deliver within their place and communities as recognised civic anchors
- deliver against the Fair Work agenda and to building equality.

Investment for Staff and Students

It is critically importance that there is adequate funding to protect the human capital that already exists within the college sector. This investment is required to mitigate the social impact and real damage associated with significant staff redundancies and campus closures.

Investment to Seize Opportunities for Scotland

The information below starts to set out the scale of just some of the potential technology opportunities that would be missed if adequate investment in the college sector is not delivered by Scottish Government.

- **Energy Efficiency Low Carbon Heat** – **£33bn** investment required across Scotland's homes to meet Net-Zero by 2045. By 2030, it's estimated that overall **28,000 jobs** could be created by the shift towards low carbon heating, with net additional jobs of 16,400. The college sector will meet the skills needs associated with these jobs.
- **Offshore Wind industry** – projected investment requirements of £6.3bn per year between 2021 and 2035, totalling **£95bn**, is predicated on the requirement for 40,000 jobs over and above those for which there is current capacity. Many of these jobs would be supported by college programmes, and therefore without adequate investment in the college sector starting now, this investment potential is at significant risk with huge losses to Scotland's economy and future potential in this work area. This is based on 30GW of output for offshore, with an additional 10GW planned for onshore wind generation.
- **Hydrogen** – Scottish Government itself has projected that the hydrogen economy could support between **10,000 - 40,000 jobs** by 2045, again with the majority at a skills level that would be delivered through colleges.

- **Transport Infrastructure** – it is projected that **£9bn** investment by 2026 is planned in Scotland, requiring an additional **25,000 skilled workers** to replace those expected to retire or leave the industry in the next five years. The college sector will meet the skills needs associated with these jobs.

In addition to the above, there are workforce requirements in carbon capture and storage, heat networks and advanced manufacture, as well as in existing job training requirements across energy, engineering and construction.

Lack of Investment

Without the requested investment through repurposing existing resources towards the college sector, the lack of investment will impact the ability of colleges to support Scotland.

Recent evidence presents the stark differences in the baseline amounts invested in college students, and the real disparities across our educational settings.

College students deserve parity of investment and Colleges Scotland has consistently called for stronger, longer-term funding to help colleges thrive. The gap between secondary school, college and university funding should be closed as soon as possible.

Extract from a SPICe briefing to the Education, Children and Young People Committee:

Average expenditure per place for each education level in real terms (2022/23)	
Pre-school	£9,273
Primary School	£5,916
Secondary School	£7,657
College	£5,054
University	£7,558

Lack of investment would realise the following risks.

Risk: Destabilise Individual Institutions

There are significant concerns about the financial position of colleges as, even before the Covid-19 pandemic, the strains on the college sector were clear. There must be stability, and then sustainability, for colleges.

Audit Scotland, in its Scotland's Colleges 2023 briefing paper published in September 2023, stated:

The Scottish Government has budgeted revenue funding for the college sector comprising £675.7 million in each of 2021/22, 2022/23 and 2023/24. After taking account of inflation, this represents a reduction in real terms of 8.5 per cent from 2021/22 to 2023/24.

The SFC has set a college revenue budget for AY 2022/23 of £675.3 million, a reduction of £36.5 million (5.1 per cent) from AY 2021/22.

Risks to the college sector's financial sustainability have increased since the report in 2022. The previous report drew on colleges' accounts for AY 2020/21 and concluded that it will be difficult for colleges to balance delivering high-quality learning at the volume expected while contributing to other Scottish Government priorities. These risks to the sector's financial sustainability have increased since then.

Risk: Damage the Chances of Scotland's Children and Families

As civic anchors, the 24 colleges in Scotland play a vital role in the social and community make up of 'our places' i.e. the combined physical, social and cultural environment. Colleges help the most disadvantaged and furthest from the labour market, and power regional economies by delivering the skilled workforce and innovative practice needed by business and industry, giving opportunities for all.

As the latest SFC report on Widening Access evidences, college enrolments for individuals from SIMD20 areas account for around **28%** of full-time higher education intake and **33%** of full-time further education college intake, with a further **20-25%** of enrolments from SIMD20-40 areas.

A report by the Sutton Trust identified that **90%** of those learners from the most socially deprived background that went to university did so through colleges – underlining the importance of a streamlined learner journey.

Colleges support social cohesion, positive and resilient mental health and wellbeing of both our learners and our communities. They provide the necessary pastoral support to students, including preventative mental health services and in-college student support services which are fundamental to improved retention and attainment rates as colleges continue to deliver on widening access.

Risk: Reduce ability to tackle the Climate Emergency

The risks to Scotland's response to dealing with the Climate Emergency will be negatively impacted without an adequately resourced college sector. Addressing climate change becomes more challenging without the appropriately skilled workforce being in place to meet the current and future industry needs, placing Scottish Government at greater risk of missing it's climate change targets.

Going forward, colleges across Scotland are needed to help Scottish workers and apprentices, to keep pace with technological, environmental, and labour market changes, and to increase workforce and business resilience to future disruption as the economy both recovers from the impact of Covid-19 and transitions to a net-zero, low-carbon inclusive format in response to the Climate Emergency.

Colleges played their part throughout the 1980's and 1990's by taking students whose previous working lives had disappeared from under them due to the changing industrial landscape, and Scotland now faces the same challenge in trying to support people move into the green economy. The opportunity for people to learn at college, at all stages in their lives, must be there.

Risk: Halt the Delivery of a Fairer, Greener Economy

Colleges are, and will continue to be, the powerhouses of Scotland's economy and are the place where this generation and the next are supported into careers by joining the workforce or continuing their education. Colleges are characterised by an ambition for greater collaboration across the skills and learning landscape, between schools, colleges, universities, and other providers, and outwards with employers, businesses, and industry sectors.

Without the identified investment set out in this Draft Budget submission for the college sector to overcome the skills emergency, there will be significant impacts to both staff and students, and risks to potential investment and opportunities, which will mean that Scotland would not maximise its economic potential in areas such as green technologies.

Revenue

Colleges Scotland, representing the views of Scotland's 24 colleges, sets out a revenue investment position of £704.9m for 2024/25 (excluding student support funding) as per the table below. The amount of repurposed resource within the wider Education and Skills budget being sought for the college sector to restructure skills provision is subject to ongoing discussions with Scottish Government.

Investment Requirements for Academic Year (AY) NOT including student support	2024/25 £m
Revenue Funding	
Baseline teaching (2023/24)	521.6
Sustainable Revenue – Based on CPI September 2023	35.5
Rebalance of college funding	45.5
Recurring Cost of 22/23-23/24 Staff Pay Offer	51.0
Energy additional costs premium	12.0
Digital Access	7.8
Mental Health and Wellbeing Fund	5.5
Transition Fund	26.0
Total Revenue Request	**704.9**

This investment position sits separate to the following:

- Further requests for the Scottish Government to repurpose funding to the college sector within the wider Education and Skills portfolio budget, for specific proposals as set out above, which Colleges Scotland will continue to work with Scottish Government officials on.
- The need for colleges to receive the required urgent focus and investment in order to offer the required training and skills necessary to achieve a just transition to Net-Zero.

Assumptions

- We ask that the Scottish Government carefully considers the current and future impact of inflationary pressures on the college sector and refers to the Office for National Statistics Consumer Price Index for inflation figure when evaluating future funding levels.
- These figures do not include Student Support or PFI/NPD costs.
- These figures do not include the cost of implementing Job Evaluation across the college sector.

Baseline Teaching (From Previous Year)

The final funding revenue allocation for AY 2023/24 acts as the baseline teaching figure for the revenue funding going forward.

Sustainable Revenue – Inflation

In order to protect the spending power of the revenue budget, this needs to be increased to reflect inflationary pressures. Our position reflects the latest CPI measure as of September 2023.

Rebalance of College Funding

This amount would address the reduction in funding for the sector of 8.5 per cent in real terms between 2021/22 and 2023/24, while the sector's costs have increased, as highlighted by Audit Scotland in its Scotland's Colleges 2023 briefing. This would start to deal with the expectation on colleges to do more with less, and help to restore the oppotunity to deliver a great learning experience.

We appreciate the figures used by Audit Scotland are for Financial Years, but this provides an approximate figure for the equivalent Academic Years. We have included an ask for the amount related to college funding excluding Sudent Support.

Recurring Cost of 2022/23-23/24 Staff Pay Offer

As of the date of this submission, the estimated costs related to the trade union's pay claims for both lecturer and support staff in 2022/23 and 2023/24 would add a further £51m to the college sector pay bill, if agreed by the trade unions. This amount would be consolidated going forward.

Clearly, this level of pay increase cannot be absorbed without significant impact on staff and students, and Colleges Scotland is expecting additional funding from Scottish Government to cover the recurring costs of these pay claims.

As Audit Scotland outlined in their 2023 briefing on the college sector, rising staff costs are the biggest financial pressure for colleges, with the strategic workforce pressures facing colleges being more challenging than before. Effective, affordable workforce planning is now a greater than ever priority and challenge for colleges, and this process requires support from the Scottish Government.

It should be noted that for every £1m not made available as part of this Draft Budget submission, this equates to an amount of resource equivalent to 20 jobs from within the college sector.

Energy Additional Costs Premium

This has been included as an addition due to the level of increases seen by colleges of their utility bills. We have worked with APUC to produce a realistic ask around the expected additional costs for Academic Year 2024/25. This ask has been informed by the latest evidence from APUC on current energy market price trends, using the latest market intelligence.

Digital Access

For colleges to deal with the ongoing challenges facing learners in terms of Digital Poverty, there is a need for a Digital Access fund – one with built-in flexibility for colleges to provide appropriate equipment and data connection for non-school based learners to ensure their engagement with learning and teaching activity.

This fund would build upon the previous investment to address Digital Poverty as allocated to colleges by the SFC since Academic Year 2020/21 and, more importantly, meet the continued demand for digital access from learners.

Meeting this demand would:

- Enable more learners from SIMD10 and SIMD20 postcodes to be able to connect
- Supports people access training or retraining
- Provides equity of access to digital learning.

For the purposes of formulating the level of ask, through publicly available data, Colleges Scotland has estimated the number of non-school based learners at college who do not have access to a laptop and/or data provision. The investment required from Scottish Government to help deliver the digital device pack approach for the college sector is as follows:

- Cost of standard specification laptop – £400 each
- Cost of 12 months data package – £300 each
- Total cost per learner – £700.

Total investment required for this Digital Access Fund to ensure all non-school based learners in digital poverty have adequate access to a laptop and data is **£7.8m** per annum.

Mental Health and Wellbeing Fund

It is critical for colleges to support the mental health and wellbeing of our staff and students. The pressure of the pandemic has clearly impacted health and wellbeing for many, as evidenced by the Thriving Learners research published by the Mental Health Foundation in the college sector.

Colleges Scotland is seeking investment to enhance learner welfare and to build capacity for colleges to offer additional mental health interventions to build on the existing Student Mental Health and Wellbeing Transition Fund in place for 2023/24, and deliver the ambitions of the Mental Health and Wellbeing Strategy in practice.

The demand for this type of support had existed previously which has grown over recent months and is required to ensure adequate support for our staff and learners and to support the relevant outcomes from the National Planning Framework relating to health.

A specific request of £5.5m for 2024/25 is being made in order to ensure the college sector is adequately resourced to support and maintain vital services for the benefit of both our students and staff. In doing so, we would expect that this funding would be allocated from the Mental Health budget within the wider Scottish Government Health Budget and delivered through the SFC to institutions.

Transition Fund

Given that the transition funding in 2023/24 was removed to pay for the teacher pay settlement, it is essential that the Scottish Government provide a transition fund in 2024/25 of **£26m or more**. This transition fund will allow colleges to pivot to the new landscape and to be able to maximise the opportunities as set out by James Withers in his Independent Review of the Skills Delivery Landscape.

Infrastructure

Separate investment is required for college estates, which are in a dire state of repair, with previous investment being used to maintain sub-standard buildings. Students are learning in inequitable conditions compared to schools and universities, and investment is required in college digital infrastructure that will provide fit for purpose digital facilities to meet the demands of our students and stakeholders for a modern hybrid learning environment.

There should be an immediate solution to the renewal of Scotland's college estate and digital infrastructure as a key pillar of investment of public sector assets. It is our estimation, as per the table below, that **£ 775m** is required to bring buildings up to current building standards, with additional funding required to assist the Scottish Government in achieving its Net-Zero target.

As noted in the Education, Children and Young People Committee's report on College Regionalisation, as well as in the Audit Scotland briefing on Scotland's Colleges 2023, there are extreme concerns about the significant level of backlog and life cycle maintenance required to ensure that the college estate is wind and watertight, to improve the adverse learning environment and subsequent impact on learners. This comes in addition to any costs that will be incurred (both now and in the future) by colleges in responding to potential issues in relation to Reinforced Autoclaved Aerated Concrete (RAAC).

The college sector is working with the SFC to deliver an Infrastructure Investment Plan, following the publication of the College Infrastructure Strategy in November 2022. We are now seeking the full support of the Scottish Government to explore how the requisite resource can be provided to remedy the outstanding maintenance issues and subsequently place colleges on the path to Net-Zero, through a plan for a national renewal of college estates per the recommendations outlined by the Education, Children and Young People Committee.

The table below sets out the needs as reported by individual colleges to a survey conducted by Colleges Scotland in 2022. Please note this does not include any estimate for the cost of dealing with RAAC.

Infrastructure Area	Finance Required 2024/25 £m
From the survey, the costs required to bring the college estate up to the baseline condition	250
Where a campus/building is life expired, what was the professional valuation undertaken to arrive at a replacement cost	525
TOTAL	**775**

In addition to the infrastructure categories identified above, colleges require financial support to:

- Receive lifecycle maintenance costs of approximately **£25m** per annum from 2023/24 onwards, plus inflationary increases.
- Provide appropriate digital infrastructure.
- Reach the goal of Net-Zero, with better building investment choices and demonstrating to learners the advantages of a Net-Zero environment.
- Manage and mitigate the impact of RAAC within the college estate on learning and teaching activity.

Positive Contributions that Colleges Make to Scottish Government Policy Priorities and Scottish Society

Colleges Addressing Scottish Government Priority – Equality

Impact on Poverty

Amidst the cost-of-living crisis, it is clearer than ever that colleges, as community anchors, are more than just places of learning. Colleges are crucial public sector assets in supporting the delivery of social justice and the national mission for tackling child poverty.

The college sector will drive and facilitate actions and interventions to create safe spaces and support learners. Colleges, working in partnership as part of multi-agency collaborations, are actively mitigating the impact of poverty in all of its forms on students and communities and creating far reaching opportunities and success for students.

For young people, college is the most popular destination for those from the lowest socio-economic backgrounds – 38% of school leavers from SMID20 move into further education – compared to a figure of 28% of school leavers overall. There absolutely must be a college place waiting for them when they make that choice. Colleges provide a wholly effective pathway for adults to give them a route to a brighter future out of poverty and gain a qualification which can increase their self-esteem and significantly improve their chances of getting a job, and increasing their household income.

Through supporting transitions for students and developing sustainable pathways for individuals out of poverty, colleges are making a significant impact in tackling poverty and inequalities, and in doing so are delivering on the Scottish Government pledge to facilitate 'material improvements in the lives and wellbeing of families across Scotland'.

The TRUST (Trauma Responsive Unique Support Tailor-made) Project at West Lothian College has been successful in keeping young people out of poverty, out of custody, and into education and employment.

It aims to remove barriers that have prevented young people who have experienced trauma to access education and all the personal, economic and societal benefits that brings. A critical aspect of the project is to guide young people away from negative paths that lead to them being detained in the criminal justice system.

It is a stepping stone into education, with bespoke courses designed for each individual to follow their desired pathway. The TRUST team works closely with partner agencies to ensure trauma, addiction, and poverty are addressed and do not block future success.

Supported by the project, young people have improved their family relationships, financial situations, employment prospects, and wellbeing. It has been instrumental in the personal and social development of students supported directly within the project and other students on mainstream courses across the college.

Poverty is sadly a daily struggle for many students. At West College Scotland staff acknowledged the increase in the number of students who were struggling to access basic resources such as food and clothing to sustain them and their families. With a number of college departments running their own 'foodbanks', the college's Wellbeing team recognised the need for a centralised approach where all students could access the same resources.

Located at each campus, the Green Rooms were set up to provide access to basic provisions such as dried and tinned foods, clothing both new and freshly laundered, pre-loved items, and general goods. Items are made available for free to both students and staff, similar to a foodbank style set-up.

These rooms are discrete and tackle the stigma that some may have about accessing provision available in more central pantries. This comes at no cost to students who are encouraged to take whatever they need.

This is resourced entirely through donations from both the college community and a small number of external partners. Volunteer members of staff and students, co-ordinated by the Wellbeing Advisors, take care of the day-to-day running.

Colleges Addressing Scottish Government Priority – Opportunity

Impact in Delivering National Strategy for Economic Transformation

Colleges are, and will continue to be, the powerhouses of the required economic transformation throughout Scotland. They will be the place where the necessary **workforce will be skilled up**, and this generation and the next, will be supported into careers by joining the workforce or continuing their education. Colleges are characterised by an ambition for greater collaboration across the skills and learning landscape, between schools, colleges, universities, and other providers, and outwards with employers, businesses, and industry sectors, **leading to a fairer and more equal society**.

Scotland's 24 colleges provide education and skills training to approximately 236,730 students each year, in a mix of full-time, part-time, in person, and remote learning, as well as delivery in partnership with schools, employers and other stakeholders. Around 111,459 college enrolments are linked to industry. This allows colleges to contribute to **productive businesses and regions, and to support entrepreneurial people and culture**.

Scotland's colleges are best for the seeds of recovery to take hold and flourish, with a **recognised culture of delivery** and already holding the expertise and ability to deliver reskilling, upskilling, career improvement and holistic support to people locally and regionally, across the country, ready to take advantage of the emerging **new market opportunities**. This role will be especially vital in transitioning the existing workforce into new emerging sectors.

Colleges are also essential components in developing and delivering a genuinely 'placed based approach' to regional and local skills planning. This would be done in partnership with the proposed Scottish Government skills planning function as recommended by the Skills Delivery Landscape Review.

There is a requirement for funding for innovation – to recognise the role of colleges within the innovation landscape and in support of the Scottish Government Innovation Strategy, as well as funding for sustainability, climate change, green efficiencies, child poverty, and starting to move colleges to Net-Zero with better building investment choices, active travel and working from home. Further work on these aspects will follow in order to identify specific costs but it is important to recognise the need for these funds to ensure colleges can fulfil their potential in supporting wider Scottish Government ambitions.

Alex Marshall is a pupil at Queen Anne High School in S5, working towards her higher qualifications but also doing a Foundation Apprenticeship (FA) in Business with Administration at Fife College. As part of the FA, Alex has undertaken a placement in the college's internal communications department.

Alex said: "My apprenticeship has benefitted me a lot, I have learned to be more confident when speaking to people. It's also improved things such as my time management as some of the assessments are sent out to do in our own time with a deadline, meaning that I have to plan when I will complete it. The apprenticeship gives me a lot of freedom compared to school and I really enjoy it because of this.

"In the future I plan to go on to do my HNC and HND both in Business. I have really enjoyed college and the way you are treated compared to school and due to this I've applied for my HNC in Business next year. I hope to run my own business in the future."

Addressing Climate Emergency

Scotland's colleges are at the very heart of our skills delivery landscape as we transition to Net-Zero by 2045. With ambitious climate targets comes an ambitious opportunity – Colleges Scotland is clear that in delivering Net-Zero we must grasp the chance to be a global leader in green skills; we believe Scotland's training and delivery could be an area of distinct competitive advantage.

Going forward, colleges across Scotland will also continue to help Scottish workers, and Scottish apprentices, to keep pace with technological, environmental, and labour market changes, to increase workforce and business resilience to future disruption and deliver transitions to a net-zero, low-carbon inclusive format in response to the Climate Emergency.

Colleges are ideally placed to support organisations across Scotland to rebuild businesses and their confidence and to do this with the Net-Zero targets in mind, whilst creating opportunities to develop resource efficient, inclusive, and sustainable economic approaches, which help address inequality and poverty.

Given the college sector's extensive networks and unique reach to SMEs, colleges have a key role to play in supporting net-zero related innovation activity in these businesses, whilst driving regional economic developments and recoveries focused around moving towards a net-zero economy and simultaneously maximising the opportunities for workers to develop their skills as part of these changes.

Recent reviews of the skills landscape are united in their concerns that the current demand for skills training is outstripping the provision, as Scotland is beginning to experience significantly increased demand regarding green jobs.

As the Scottish Government is prioritising equality, opportunity, and community, colleges are ready to respond to the forecasted need for green jobs and increase the current provision of training, re-skilling and up-skilling across Scotland's colleges.

Glasgow Clyde College has devised a programme of Green Skills courses including Electric Vehicles Charging Installation, Heat Pump System Maintenance, and Solar Thermal Hot Water Systems. The courses aim to support the upskilling of those already working in the electrical and energy sectors, to enable them to embrace and adapt to the increase in consumers and industry utilising low-carbon technologies.

The college has also created a net-zero energy-independent classroom powered by green sources such as battery storage, solar PV, and a wind turbine. The classroom serves as a living example of a Net-Zero 'island' of sustainability, integrating renewable energy principles into the curriculum and inspiring students to become environmentally conscious leaders. The result has seen the 'island' classroom utilising sustainable energy 94% of the time, with no need to draw from the grid, with surplus energy stored and utilised by other classrooms.

Colleges Addressing Scottish Government Priority – Community

Delivery of a Wellbeing Economy

Colleges are a vital public sector asset in leading and facilitating the transition to a Wellbeing Economy, and in delivering this Scottish Government priority.

By providing opportunities for upskilling and reskilling, and by working with employers to ensure current and future skills pipeline resilience for the labour market, colleges across Scotland will serve the collective wellbeing of current and future generations in line with Scottish Government ambitions.

With sustained investment from the Scottish Government, colleges can help accelerate the reshaping of the Scottish economy and deliver a just transition to a Net-Zero, nature-positive economy based on the principles of equality, prosperity and resilience in line with the Wellbeing Economy.

Colleges already place an emphasis on purpose, prevention, and people across their activities, so are well placed to replicate these themes in building a wellbeing economy in partnership with the Scottish Government.

Katie McCafferty (41) and Mandy Mackintosh (43) are childhood friends who achieved their HNC Childhood Practice at North East Scotland College.

Both had both been working in the oil and gas industry for some time but after returning to work following the birth of their sons, felt somewhat disengaged with their respective roles.

Katie said: “It was a big decision to quit my job but as I was entering my forties thought that there would never be a better time to go for it. Starting college as a mature student was quite daunting at first but I can honestly say I’ve never looked back. It was a lot of work at times juggling classes, placement, and family life but I absolutely loved the course.”

Katie’s decision to take the plunge and return to education was the push that friend Mandy needed to follow suit. Mandy said: “When she said she’d been accepted on the course and why didn’t I apply too, I decided to go for it! It was near the beginning of the new academic session by then so I applied on the Thursday and was on campus on the Monday.”

The graduates have found jobs already as Early Years Practitioners.

Jonathan is a neurodiverse individual who was diagnosed with Autism and other learning disabilities. He became a selective mute and removed himself from any form of social interaction out of the comfort of his own home.

In 2022, Jonathan, with the support of his mother, enrolled in a programme that supports a one-year transition programme to employment for adults with learning disabilities and/or Autism spectrum conditions.

The collaborative efforts between Dundee & Angus College and the local Health & Social Care Partnership have provided the right environment for Jonathan to grow, break down barriers, and thrive. After 22 years of silence, Jonathan spoke for the first time in an educational context and has continued to develop his verbal skills.

Jonathan found a passion for working at the Nursing Bank Ninewells Hospital in Dundee during his work placement and has gone on to secure employment there where he confidently answers phone calls and handles reception duties as part of his role.

National Performance Framework

Investment in the college sector will ensure that the national public assets, and skills, experience, and abilities of the college sector can be utilised to help deliver on several of the National Outcomes. These include:

Education

We are well educated, skilled and able to contribute to society.

Economy

We have a globally competitive, entrepreneurial, inclusive and sustainable economy.

Poverty

We tackle poverty by sharing opportunities, wealth and power more equally.

Fair Work and Business

We have thriving and innovative businesses, with quality jobs and fair work for everyone.

Without investment in colleges, the Scottish Government ambitions around these key National Outcomes will be negatively impacted and potentially lost.

When Colleges Thrive, Scotland Thrives

The Scottish Government is placing a focus on delivering against Equality, Opportunity, and Community. Without significant and sustained proactive investment in the college sector as public sector assets, the delivery of these ambitions in practice will not happen.

The absence of this proactive investment will create a further absence of opportunities for those citizens furthest from the workforce and who are already the most socially isolated in their communities.

If the Scottish Government wants to enact real change in the lives of these citizens across Scotland and provide opportunities for both young learners and those returning to education, colleges must be resourced to make a difference to all types of students, whether this is helping them progress out of poverty and into fulfilling employment or supporting learners to fulfil their potential and move into careers or start their own businesses.

When Colleges Thrive, Scotland Thrives.

policy@collegesscotland.ac.uk | www.collegesscotland.ac.uk | @CollegesScot

Colleges Scotland, Argyll Court, Castle Business Park, Stirling, FK9 4TY

Colleges Scotland | Company Limited By Guarantee | Registered in Scotland No: 143210 | Scottish Charity No. SC023848

Wednesday, 6 December 2023

Shona Robison MSP
Deputy First Minister and Cabinet Secretary for Finance
The Scottish Government
St. Andrew's House
Regent Road
Edinburgh
EH1 3DG

Ref: AW/TH

Dear Deputy First Minister and Cabinet Secretary for Finance,

Draft Budget 2024/25

Colleges Scotland as the voice of the sector supports the delivery of thriving colleges at the heart of a thriving Scotland. Colleges Scotland, as the membership body, represents all 24 colleges in Scotland, which deliver both further education and around 13% of the provision of all higher education in Scotland.

Context

The college sector finds itself on a burning platform, with the combination of real term cuts over several years with increased costs related to workforce, inflation and energy (amongst others). This has left a sector, which has the potential to provide so much to learners, communities, and the economy, in a situation where colleges are cutting staff, reducing courses and having to remove much needed support services from the students who need them most.

Draft Budget Submission

The college sector's submission in regard to the Draft Budget for 2024/25 is framed around two main areas:

- Restore
- Repurpose.

Restore

Audit Scotland highlighted the 8.5% cut in real terms funding between 2021/22 and 2023/24. Our Draft Budget submission includes an ask to restore this funding reduction, so that colleges are able to deal with the immediate burning platform they find themselves on, and to provide for short term survival. This will help to provide stability for the sector.

Repurpose

By taking the opportunities provided by the current Post School Education and Skills Reform agenda, this is a moment to look across the wider £3.2bn spend on education and skills and to repurpose some of this spend towards colleges, where the efficiency of the public pound can be realised. This will bring benefit to learners, communities, and the economy. This provides an

E-mail: policy@collegesscotland.ac.uk | Web: www.collegesscotland.ac.uk | Argyll Court, Castle Business Park, Stirling, FK9 4TY

Colleges Scotland | Company Limited By Guarantee | Registered in Scotland No: 143210 | Scottish Charity No. SC023848

opportunity to create sustainability for the college sector in the longer term.

Fraser of Allander – Economic Contribution of the College Sector

The economic benefit to individuals and the Scottish economy for every £1 invested in the college sector has been clearly demonstrated by the recent independent report by Fraser of Allander Institute.

This new research evidences that the Scottish economy will be £52 billion better off cumulatively over the 40-year working life of college graduates. The report shows that over their working lives, college graduates boost employment, increase real wages and contribute to increased trade and investment.

Researchers studied the impact of the 2016/17 to 2021/22 college graduate cohorts, and calculated that every college graduate in Scotland creates an additional £72,000 boost to productivity for the Scottish economy as a result of going to college. These graduates also help to support the equivalent of an additional 203,000 full-time jobs in the Scottish economy, over their 40-year working lives.

Colleges bring the added benefit of directly providing the equivalent of 10,700 full-time jobs, and they support a further 4,400 jobs elsewhere in the economy through their supply chain spending.

For just the class of 2021/22, the Scottish Government invested £740 million into colleges, which is projected to lead to an £8 billion boost to the Scottish economy, and a £2.8 billion boost to government revenues over the coming 40-year period.

I look forward to ongoing dialogue with yourself and your colleagues as you look to finalise the Draft Budget.

Yours sincerely,

Andy Witty
Director of Strategic Policy and Corporate Governance

CC: Cabinet Secretary for Education and Skills, Jenny Gilruth MSP; Minister for Higher and Further Education; and Minister for Veterans, Graeme Dey MSP; and Karen Watt, Chief Executive, Scottish Funding Council

E-mail: policy@collegesscotland.ac.uk | Web: www.collegesscotland.ac.uk | Argyll Court, Castle Business Park, Stirling, FK9 4TY

Colleges Scotland | Company Limited By Guarantee | Registered in Scotland No: 143210 | Scottish Charity No. SC023848

Scottish Draft Budget 2024/25 Analysis – December 2023

The Scottish Government published its Draft Budget 2024/25 on Tuesday, 19 December 2023. The Draft Budget will not be finalised until it has gone through the Scottish Parliament's legislative process.

Government Spending on Colleges

- The Scottish Government will **reduce revenue funding** for the college sector, with the Draft Budget for 2024/25 provisionally confirmed as **£643.0m**. This represents a reduction of **£58.7m** against the Budget for 2023/24 of £701.7m, equivalent to **8.4%**.
- The Scottish Government has **increased** current levels of **capital funding** for the college sector with the Draft Budget for 2024/25 provisionally confirmed as **£84.9m.** This represents **an increase of £2.5m, or equivalent to 3.0%,** against the Budget for 2023/24. The final allocation of this funding is still to be confirmed and will be subject to further dialogue between the Scottish Government and Scottish Funding Council (SFC).

Below is the Level 3 breakdown of spending for the college sector in relation to the SFC:

	2022/23 £m	**2023/24 £m**	**2024/25 £m**
College Operational Expenditure	865.7	891.7	833.0
College Operational Income	(190.0)	(190.0)	(190.0)
Net College Resource	675.7	701.7	643.0
College NPD Expenditure	29.3	29.3	29.3
Net College Capital	74.7	82.4	84.9

Key points to note in the Draft Budget include:

- Reduced investment in the SFC, from £2.01bn in 2023/24 to £1.9bn in 2024/25. SFC has seen a reduction in administration costs from £7.8m in 2023/24 to £7.6m in 2024/25.
- Investment of £202.5m in Skills Development Scotland (SDS) for 2024/25. This represents a further reduction in the overall SDS budget, having seen a reduction from £217.1m to £206.6m between the 2022/23 and 2023/24 Budgets.
- Scottish Government "to provide opportunities for people to learn and develop their skills through further and higher education and apprenticeships".
- Scottish Government to provide "vital financial support to students to support them in completing their studies in the face of significant cost of living pressures".
- Scottish Government "taking action to support our colleges, universities and skills system with over £2.4 billion of investment, including protecting free tuition and driving forward our commitment to Widening Access"
- Students Award Agency for Scotland (SAAS) Operating Costs have seen reduction, from £13.0m in 2023/24 to £11.2m for 2024/25.

Education and Skills Portfolio Context:

- The Scottish Government has reduced the Education Reform Budget to £98.4m in 2024/25 from £99.4m in 2023/24.

- The Lifelong Learning Budget has been reduced from £277.2m in 2023/24 to £253.7m in 2024/25.
- Investment in Higher Education and Student Support has increased from £925.1m in 2023/24 to £1.48bn in 2024/25.
- The Scottish Government is to maintain the £200 million annual investment in the Scottish Attainment Challenge for 2024/25 in order to increase the pace of progress on closing the poverty-related attainment gap.
- The Scottish Government will invest £10 million capital in targeted device and connectivity provision for Scotland's most disadvantaged households with children, so as to benefit those households struggling with the cost-of-living crisis while also tackling digital exclusion amongst the most deprived learners.
- The Scottish Government is maintaining the commitment to continue to deliver 1,140 hours of high-quality early learning and childcare to all three- and four-year-olds and eligible two-year-olds, with early learning and childcare to benefit from the expansion of childminder recruitment and retention pilots to grow this part of the workforce by 1,000 more by 2026/27
- Education Scotland has received an increased investment of £29.2m for 2024/25 in comparison to 2023/24 funding levels, of £28.7m.

Capital

- Net College Capital funding has increased to £84.9m in 2024/25 from £82.4m in 2023/24 and £74.7m in 2022/23. Final details of allocations to institutions, and whether additional funding has been provided to mitigate the impact of Reinforced Autoclaved Aerated Concrete (RAAC), will be subject to further discussions between Scottish Government and the SFC.
- The Scottish Futures Trust will also see a further reduction in funding to £3.4m from £3.7m in 2023/24 and £3.9m in 2022/23.
- Overall Scottish Government Budget for Digital has increased to £208.8m from £148.3m in 2023/24.

Net-Zero, Energy and Transport

- The Climate Change spending plans incorporate a significant decrease in the Just Transition Fund to £12.2m in 2024/25 from £50m in 2023/24. Funding for Climate Action and Policy has also decreased from £29.7m in 2023/24 to £29m in 2024/25.
- Scottish Government to invest nearly £67 million in enterprise agencies and the Scottish National Investment Bank, to kickstart commitment of up to £500 million over five years to leverage private investment in ports, manufacturing and assembly work to support a thriving offshore wind supply chain and associated jobs.
- Scottish Government is providing £358m in 2024/25 to continue to accelerate energy efficiency upgrades and installation of clean heating systems.
- Scottish Government to support the maximising of offshore wind supply including through an increased investment in the Offshore Wind Supply Chain from £9.3m in 2023/24 to £66.9m in 2024/25.
- Scottish Government investment in Energy Transition within the Wellbeing Economy, Fair Work and Energy Directorate has reduced to £52.5m in 2024/25 from £86.1m in 2023/24.

Colleges Scotland
December 2023

GMB

SCOTLAND

GMB Scotland Submission to the Finance and Public Administration Committee on the Scottish Budget 2024-25 January 2024

The Scottish Government's Budget for 2024/25 was lacking in ambition, realism, and more notably, a long-term plan for Scotland, our public services, and our industrial and energy sectors. This Budget will damage services, deepen inequality, and reduce the standard of living for our members and the communities they serve.

Raising Revenue & Council Tax: An unwillingness to utilise the tax powers available; and, not only retaining the Council Tax, but freezing it, will place greater pressure on all public bodies to meet the service levels communities expect and the pay rises our members deserve.

A new income tax band is welcome as this will collect more money from higher earners. But this goes nowhere near far enough to plug the gap in Scotland's public finances.

Council Tax must either be reformed to lift the tax burden on the lowest earners and place a greater emphasis on collecting taxes from the highest earners whilst increasing the revenue yield; or it must be scrapped and replaced with a new system which does the same. This has been long overdue, and a perpetual freeze to Council Tax will only exacerbate the inequalities baked into the current tax system and undermine public services.

Without being properly financed or further financial powers, councils are facing an equal pay time bomb. Contrary to public perceptions, equal pay in Scotland's local authorities has not been resolved. It is a process, not an event. GMB Scotland and sister trade unions continue to lodge equal pay claims across Scotland. Councils have been reluctant to resolve these despite the legal impetus to do so in large part due to their limited finances. Instead, money is being drawn from other areas where it is also needed. But without doubt, these workers deserve equal pay and the money they are owed. Public services cannot be built on the backs of low paid workers who are predominantly women. The longer these claims are not settled, the higher the bill for councils.

Public Service Workforce & Pay: The Scottish Government reaffirming its commitment to tens of thousands of job losses in the public sector will mean that public service workers will continue to be expected to do more for less. The Deputy First Minister stated that they she will “work in partnership with trade unions”, but has not made it clear to us how she intends to do this or on which services the axe will fall.

“Reforming” public services and to pursue “sustainability” ultimately means cuts to investment and the workforce. In the long term, this will open the door to privatisation of public services – especially in local government as councils are starved of the funds they need to properly staff services and deliver the pay awards our members deserve.

GMB Scotland has repeatedly called for the Scottish Government write its Public Sector Pay Strategy in cooperation with trade unions. This came after almost every public sector workforce receiving pay increases above the maximum in the previous strategy, and the Scottish Government breaking their own rules with regards to public sector executive bonuses e.g. in Scottish Water. A lack of realism in setting the Strategy means that public sector bodies will have to find money elsewhere if and when trade unions enter into dispute. This realism can only be provided with the active involvement of trade unions.

Postponing the Strategy until after the UK Spring Budget gives the Scottish Government the opportunity to hold those talks on minimums and maximums which they must take if industrial action in key public services is to be avoided. Unprecedented strike action was only narrowly avoided in 2022 after our members accepted a two-year deal. The issues in our NHS have only deepened since then with our members expecting a pay offer which matches their value.

Health and Social Care: An increase of £550m in funding for the NHS and SAS will not go far enough to meet the demand in services. This sum amounts to roughly half of last year's pay award. This is therefore likely to be used to fund a pay award for healthcare staff rather than be used to increase capacity within the service.

In any case, there can be no recovery in the NHS and SAS without a recovery in social care. Increased capacity in social care will ensure Scotland's aging population can be cared for at home or in a social care setting and therefore freeing up resources in hospitals which will prevent ambulance queues at Scotland's hospitals. This can only be achieved by tackling the recruitment and retention crisis in social care the root of which is low pay.

The increase to £12 per hour for the social care minimum has largely been eaten by inflation. The Scottish Government is therefore running to stand still on social care pay. This amount was reached without any real negotiation with trade unions. Social care requires professional qualifications and scrutiny in return for low pay – especially in the private and third sectors. In order to make social care an attractive sector to work in and for services to be properly staffed, pay must be raised as soon as possible to £15 an hour for social carers and a proportionate increase for all nursing and ancillary staff.

Energy & Industrial Strategy: GMB Scotland welcomes the Scottish Government's commitment to invest £500m over the next five years in anchoring new offshore wind supply chains in Scotland. However, this investment is long overdue with many of the contracts, jobs and revenues already being offshored across the world and with them the taxes required to fund public services. This money must be invested quickly, but properly in a real industrial base if those working in fossil fuels are to have opportunities available to them.

So far, this has not been the case. Oil and gas jobs have been subject to a death of a thousand cuts. However, the recent announcement that Grangemouth will cease oil refining operations in 2025 and with it hundreds of jobs was a major blow to energy security and Scotland's industrial base. This is the result of years without industrial planning; and an industrial and energy strategy. Politicians have frequently undermined Scotland's highly successful oil and gas sector and offering only warm words of a 'Just Transition' with very little green jobs materialising. The reality is that Scotland will rely on oil and gas to meet our energy needs, but without the ability to produce it ourselves and instead completely relying on other countries.

The investment of £358m to accelerate installation of clean heating systems in homes is naïve. Many of these systems e.g. heat pumps, will only add installation costs onto households which are not in a position to afford them, and will increase the cost to heat homes due to higher price of electricity compared to gas.

Instead, a greater emphasis must be placed on insulating homes to reduce energy use and emissions; building new nuclear for future generations; and on utilising Scotland's existing gas network through the use of hydrogen in home heating and meeting industrial and transportation energy needs.

ENDS

NatureScot
Scotland's Nature Agency
Buidheann Nàdair na h-Alba

NatureScot's Response to the 9th January 2024 Finance and Public Administration Committee's scrutiny of the Scottish Budget 2024-25 invitation to give evidence.

NatureScot's corporate plan "A Nature Rich Future for All" and our annual business plans focus on our key objectives of protect, restore and value nature. They provide an ambitious but essential programme of work and activity if Scotland is to reverse the devastating pattern of bio-diversity loss by 2030 and restore nature by 2045.

In broad terms, NatureScot welcomes the budget allocation for 2024-25 but we still await clarification on key details. Although there appears to have been an increase in the budget allocation, we're awaiting information on baseline transfers and any additional expectations of NatureScot. With the pay bill settlement, rising costs, the expansion of Scotwind and the introduction of new bills on Hunting with Dogs and Grouse and Muirburn Management, there remains considerable pressure on NatureScot's core Grant-in-Aid budget which has come under increasing pressure in recent years.

We have noted that other public sector bodies and programmes operating in the 'nature space' appear to be facing reductions. The budget confirmed budget reductions to key projects so we will need to understand what impact this will have on meeting 2030 targets particularly if partner organisations face capacity constraints. It underlines the importance of NatureScot having the capacity to progress its plans at pace in order to meet those objectives at the end of the decade.

We have some specific observations about peatland reform due to its crucial importance in reducing CO2 emissions and our ongoing commitment to public service reform.

Peatland Action

Within the context of the challenging fiscal situation facing the Scottish Government, it is a strong statement of support and intent from Scottish Ministers that the draft allocation for the Peatland Action programme is £26.9m for 2024-25. This is made up of £20.4m in capital funding and £6.5m in resource funding for the programme.

Across the five direct delivery partners, the collective request was £34.6m capital and £9.1m resource in order to deliver 14,600ha of peatland restoration in 2024-25 and work towards the target of 250,000ha to be restored by 2030. We will need to make some choices regarding how best to distribute the available funding across the Peatland Action partnership.

We need to maximise the outputs from the programme within the given budget constraints. Maximising the area that we can restore with the given budget is the primary budgeting principle.

To enable this, we know that collectively we have to bring down the average capital cost of restoration projects to around £1,390/ha or bring in alternative sources of capital.

Our own response is to optimise existing resources in this area rather than look to increase them.

We will work with Scottish Government and delivery partner colleagues to identify the best way forward.

Public Service Reform

We completed a commission in September as part of the Public Service Reform Revenue Raising Sprint on potential income streams. Our Sponsor Team are collating responses and passing these on for consideration. We haven't received any further feedback but the main outcomes from the discussion concerned the involvement of private finance in nature restoration and that there should be a sector-wide approach to increasing revenue. For example, any additional licensing charges should be considered along with SEPA, Scottish Water etc.

For further information please contact:

Stephen Coulter
Planning and Performance Manager

4th January 2024

Supporting Scotland's
Vibrant voluntary sector

SCVO briefing to the Scottish Parliament Finance and Public Administration Committee

Scottish budget 2024-25

December 2023

Thank you for inviting SCVO to give evidence as part of the Committee's scrutiny of the 2024-25 Scottish budget; we look forward to joining your meeting on 9 January 2024. Thank you also for the opportunity to suggest the key issues that we believe the Committee should be made aware of. For SCVO, and Scotland's voluntary sector, the key issues are:

- The voluntary sector has a key role to play in relation to all three of the Scottish Government's missions
- To enable voluntary organisations to play their role in relation to those missions, their financial sustainability must be secured
- In so far as we can tell, the Scottish budget does nothing to support this, despite assurances from the First Minister and Deputy First Minister that it would
- The lack of transparency in the budget significantly hinders our ability to assess the impact of budget decisions, and to hold government to account

We also recommend the Committee takes account of the views of voluntary organisations with expertise in the three mission areas on the impact of budget decisions.

Scotland's voluntary sector and the Scottish Government's three missions

The voluntary sector in Scotland is a major employer, a partner in delivering public services, and a vital contributor to society and the economy.

The Scottish voluntary sector:

- Includes over 46,500 voluntary organisations.
- Employs over 135,000 paid staff- 5% of Scotland's workforce.
- Works with over 1.2 million volunteers.
- Had an annual turnover of £8.5 Billion in 2021.

The sector has a key role to play in delivering the Scottish Government's three missions.

- Equality: Tackling poverty and protecting people from harm

Voluntary organisations provide practical and emotional lifelines for people and communities when times are tough (e.g., food banks) and support them on their journey out of poverty (e.g., access to benefits). Our sector supports people into work and helps them to stay there, campaigns against the root causes of poverty, and supports individuals and communities to improve their lives. The Tackling Child Poverty Delivery Plan 2022-26 recognises this, and sets out that the Scottish Government would use the Spending Review 'to provide multi-year funding for the third sector where possible to do so, enabling more sustainable, joined up, strategic planning for the sector.'

- Opportunity: A fair, green and growing economy

With a turnover of £8.6billion, Scotland's voluntary sector is a major economic actor. Our sector plays a central role in local economies, employing over 135,000 across Scotland - 5% of Scotland's workforce. The sector plays a crucial role in keeping people economically active by providing employability support, mental health support, and wider support for people, families, and communities, such as childcare. Voluntary organisations also bring added value to the economy by working with Scotland's 1.2 million committed volunteers and by bringing fundraised income into vital areas, from service provision to environmental and medical research. Similarly, Scotland's 6,000 social enterprises contribute to society and the economy by investing profits and surpluses in social and environmental missions. Our sector, like the public and private sector, is central to the wellbeing economy the Scottish Government aspires to, a transition that will require all three sectors to work together.

- Community: Prioritising our public services

Without the voluntary sector, our public services would be significantly diminished. Through direct provision of public services in areas like social care and youthwork, or working with communities to keep people active, engaged, and healthy in a way that prevents them from needing to access statutory services, Scotland's voluntary organisations are a vital part of our public service infrastructure and must be valued as such. Our sector also adds value to Scotland's local and national systems by bringing access to fundraised income and volunteer time that is not available to other actors.

Financial sustainability for the voluntary sector

As the Committee understands from previous SCVO evidence, years of underfunding and poor funding practices, followed by Covid 19, inflation and the resulting cost-of-living and running costs crises have put the sector under increasing pressure, exacerbating financial and operational challenges. Wave six of the Scottish Third Sector Tracker found that:

- 71% of organisations have financial problems
- Nearly 1 in 3 organisations have cut or modified programmes to save costs
- 66% of organisations are facing increasing demand
- 1 in 5 organisations do not have capacity to meet that demand
- 10% of organisations are uncertain about their future viability.

While of course organisations in all sectors are under significant financial pressure, it is worth noting that the the Fraser of Allander Institute (FoA) Scottish business Monitor has found that businesses in the voluntary sector have greater cost pressures and concerns around these pressures than the rest of the business community.

To help alleviate some of these pressures, we called on the Scottish Government ahead of the budget to

- make progress on its commitment to Fairer Funding for the sector by 2026 by:
    - explaining what it means by Fairer Funding – ideally aligning with the Fair Funding principles SCVO worked with the sector to develop – and developing timelines and goals for this work to allow progress to be monitored
    - addressing poor fund management by Scottish Government departments, in particular ensuring that decisions about spending in 24-25 are communicated in time for voluntary organisations to plan effectively
    - making progress on their commitment to multi-year funding for the sector
    - confirming annual inflation-based uplifts for public grant funding and contracts regardless of the type of delivery partner, recognising the impact of rising inflation on the voluntary sector workforce and the need for pay uplifts for voluntary sector staff on par with those offered to the public sector.
- Resource Living Wage uplifts in grants and contracts as part of expanding the Scottish Government's Fair Work First criteria to ensure that the policy is not unfunded and that the Scottish Government does not expect voluntary organisations to subsidise government funding that does not cover the real Living Wage or provide inflation-based uplifts.
- Ensure that voluntary organisations in Scotland benefit from the full Barnett consequentials of the additional support the UK Government provides to charities and communities in England and communicate decision-making on these matters transparently. In particular, we hoped to see the consequentials of the £10m committed by Wesminster to support the sector with rising energy costs passed on to Scottish voluntary organisations.
- Ensure transparent monitoring of and reporting on public sector funding of the voluntary sector. There is no accurate picture of how funding flows to voluntary organisations and from which budget lines. To ensure the sector, scrutiny bodies, MSPs and Ministers can understand the impacts of commitments on voluntary organisations, transparent monitoring – in the Budget and beyond - is crucial.

What we can tell from the budget

Disappointingly, in so far as we can tell, the budget does very little to progress these asks. We therefore anticipate further financial difficulties for voluntary organisations in the year to come, undermining their ability to deliver on the Scottish Government's missions, and crucially, to support people and communities through the costs crisis.

The budget document states that "our work on efficiency levers will include a review of grant models in operation, guided by our commitments to Fairer Funding for the Third Sector." While we are pleased to see this, the framing of the review of grant models around 'efficiency' is concerning in that it suggests a cost saving impetus for this work, rather than recognising the key role of the voluntary sector or the increasing demands on their services as the people and communities they work with face increasing pressures. It is also worth noting that last year's budget commitment that "adopting Fairer Funding practice is something we intend to progress in the next financial year" has not resulted in any discernible action by Scottish Government to progress this.

At The Gathering in November, the First Minister told the voluntary sector that "we are very much in that Budget process as we speak, and I can absolutely give you firm assurance that work, consideration, of how we give you stability in terms of funding, multi-year funding, is very much underway", adding that the budget "absolutely will include, a greater number of at least two-year grants where we can, and if we can go further we will seek to absolutely do that". Yet the Deputy First Minister confirmed that this budget is for one year only – instead deferring any multi-year outlook to the forthcoming 2024 Medium-Term Financial Strategy. Given the failure of the 2022 multi-year spending review to deliver on this ask despite extensive lobbying by SCVO and our members, we are concerned that this merely kicks the issue into the long grass.

The late budget process – and ongoing financial challenges - will inevitably result in delays to funding allocations within Scottish Government departments, which we expect in turn to lead to delays in voluntary organisations having their funding for 24-25 confirmed. Experience suggests that this will include some organisations not learning about their funding until several months into the new financial year, resulting in them having to issue redundancy notices to staff.

No announcement of financial support to the voluntary sector with rising costs was made.

What other voluntary organisations took from the budget

While our own analysis of the Scottish budget concentrates on the overall impact on Scotland's voluntary sector, individual voluntary organisations with expertise in particular areas have commented on how they believe the Scottish budget will impact on those areas of work. While we cannot speak for these organisations, and recommend that the Committee hears from them directly, it may be useful to note the following responses from Scottish voluntary organisations (this list is not exhaustive):

- Children's charities including Child Poverty Action Group, Action for Children and Save the Children questioned the budget's ability to help meet child poverty targets, particularly calling for a greater increase to the Scottish Child Payment
- Oxfam Scotland suggested that short term budgeting will not resolve the long term issues inherent in the Scottish Government's missions
- Independent Age stated that measures in the budget did not go far enough to support older people living in poverty
- The Poverty Alliance believed the budget fails to deliver the fundamental changes we need to address poverty
- Shelter Scotland criticised cuts to the housing budget

Difficulty in analysing the budget

There are limitations to how much we can contribute to the Committee's detailed questions, as the way in which the Scottish budget is constructed and delivered makes it extremely difficult for us to assess the impact of the budget on Scotland's voluntary sector.

Funding to the voluntary sector comes from across Scottish Government departments – the Third Sector budget line is only a very small proportion of the total that we estimate comes from the Scottish Government each year to the sector. Ministers and civil servants regularly use SCVO's estimates to highlight the scale of government funding for the voluntary sector - an estimated £480m a year. Official figures are not available from the

Scottish Government, which we believe is a significant gap in the Scottish Government's understanding of funding flows to the voluntary sector. Neither is data on Fair Funding criteria, such as how much funding is delivered on a multi-year basis or includes uplifts, collected. The fact that the Scottish Government does not centrally record how much funding it provides to the sector is a significant barrier in our ability to assess how the sector fares from year to year.

In addition, the timing of this year's budget makes it difficult for us to gather the information we need from across the sector about how different budget lines look. With less than a working week in the run up to Christmas between the budget announcement and the submission of this briefing, it is extremely challenging to provide a comprehensive picture of the potential impact on the sector, and its ability to contribute to the Scottish Government's missions.

These are difficulties that we face year on year, in seeking to hold the Scottish Government to account on whether its support for the sector is anything more than warm words. On budget day, the Deputy First Minister visited a voluntary organisation, The Larder, promising that the budget "will prioritise supporting services like the Larder" – there is very little that we can see at this stage to support those claims, but it will not be until the Summer, when we hope all voluntary organisations funded directly by the Scottish Government will know their financial positions, that we will be able to have even an outline sense of what the impact was.

The Committee's own inquiry on effective decision making has emphasised that transparency is essential for political accountability, and at the moment the lack of transparency in the budget process prohibits our ability to fully understand the impacts of the budget or to hold Scottish Government to account. We have made significant calls around the need for greater transparency in Scottish Government funding to the voluntary sector, which have been endorsed by the Social Justice and Social Security Committee, and would welcome the Committee's support on this matter too.

Kirsten Hogg

Head of Policy and Research, SCVO