

Finance and Public Administration Committee

8th Meeting 2024 (Session 6), Tuesday 20
February 2024

Scottish Government's response to the Committee's report on the Scottish Budget 2023-24

Purpose

1. The Committee is invited to take evidence from Shona Robison MSP, Deputy First Minister and Cabinet Secretary for Finance, in relation to the Scottish Government's response to the [Committee's Report on the Scottish Budget 2024-25](#). The Deputy First Minister is accompanied by Scottish Government officials:
 - Dr Alison Cumming, Director of Budget and Public Spending,
 - Ian Storrie, Head of Local Government Finance, and
 - Lorraine King, Deputy Director, Tax and Revenues Directorate.
2. This paper provides a summary of the key issues raised in the Committee's Report on the Scottish Budget 2024-25, along with relevant points made by the Deputy First Minister during the [Pre-Budget](#) and [Stage 1](#) debates that took place in early February. The Scottish Government's Response to the Committee's Report is to follow.
3. This evidence session will take place immediately before Stage 2 proceedings on the Budget (Scotland) (No.3) Bill and is intended to inform this and subsequent consideration of the Bill.

Scottish Budget 2024-25

Context

4. The [Scottish Budget 2024-25](#) was published on 19 December 2023 and sets out the Scottish Government's proposed tax and spending plans for the next financial year. In her foreword to the budget document, the Deputy First Minister states 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". She also outlined the Scottish Government's approach to setting this budget through adopting a values-based approach focused on its three Missions for 2026—

- Equality: Tackling poverty and protecting people from harm,
 - Opportunity: A fair, green and growing economy, and
 - Community: Prioritising public services.
5. The Scottish Budget 2024-25 is accompanied by the [Scottish Fiscal Commission's \(SFC's\) latest set of forecasts](#)¹ for the economy, tax revenues and social security spending. 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”. It notes that 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 (mainly due to the improved income tax net position), capital funding is set to fall by £173m (largely due to reduced capital budgets applied by the UK Government).
 6. The Committee’s Report, published on 31 January 2024, recognises that the significant pressures on Scotland’s public finances have presented difficult decisions in relation to taxation and spending. It however expresses continuing concerns that the Scottish Government “still appears to be primarily occupied with resolving immediate funding issues, with little focus on medium to long-term planning”. The Committee was disappointed at the lack of response to its strong recommendation that the Scottish Government produces a full response to the SFC’s Fiscal Sustainability Report”. Failure to do so, the Committee suggested “was a missed opportunity to demonstrate a long-term planning approach and to start to address the significant challenges ahead”. It went on to say that “the impression given is that the Scottish Government is procrastinating on important decision-making that would help support medium- and longer-term sustainability of Scotland’s public finances”.
 7. The Deputy First Minister, during the Pre-Budget Debate on 1 February, suggested that “we align the longer-term debate with the next medium-term financial strategy in May, but I am open to discussion with Members about the best timing for that”, adding “I give a commitment to revisit the matter”.
 8. The Committee also said it remains to be convinced that the Scottish Government’s prioritisation of its tax and spending plans towards delivering its three missions has been carried out in a strategic, coherent and coordinated way. It further sets out its expectation of a greater focus from the Scottish Government on developing and delivering its reform programme at a quicker pace in the months and years ahead.

Taxation

9. In its Report, the Committee recognised the uncertainty around potential behavioural change arising from increased income tax levels. It welcomed the analysis being undertaken by HMRC to identify any behavioural trends in labour market participation and intra-UK migration arising from income tax reforms and

¹ December 2023 Forecasts.

said it “looks forward to examining how this analysis informs future forecasts and taxation policy”.

10. The Committee further highlighted serious anomalies in how income tax and national insurance policies interact across the UK, noting “we have seen little evidence of either government seeking to avoid or resolve these anomalies”. The Committee repeated its calls that both governments work together to try to mitigate these issues in future.
11. On non-domestic rates, the Committee noted concerns raised in evidence that Barnett consequentialities relating to retail, hospitality and leisure businesses in England were not passed on to Scottish businesses in full. Welcoming the Scottish Government’s plans “to gather evidence on how the relief it has introduced for islands hospitality businesses is making a difference”, the Committee sought further details of how it will use this evidence to inform future decisions relating to support for the sector.
12. During the Pre-Budget Debate on 1 February, the Deputy First Minister noted that “understandably, the hospitality sector would like £260m of the £310m of consequentialities for 2024-25 to flow through into cuts in business rates”, but “... that would have meant less money for the NHS and for other front-line public services”. She went on to say that she “will continue discussing how we can support the sector in a way that we can afford”.
13. Witnesses explored the extent to which the Scottish Government’s decision to freeze council tax is a progressive policy, the impact on local authority spend, and whether that revenue could have been better spent on other priorities, such as further increases to the Scottish Child Payment to help meet child poverty targets. In its Report, the Committee questioned how this policy aligns with the Scottish Government’s plans to prioritise spending on areas that deliver its three Missions and sought an update on progress with undertaking a fundamental reform of council tax to ensure fairness and develop a sustainable funding model for local authorities.
14. The Committee also sought clarity regarding the Deputy First Minister’s comments that the Tax Advisory Group was never intended to provide input to each budget, when previous Scottish Government announcements were clear that the outcomes from this work would feed into the Scottish Budget 2024-25. It further requested an update on the TAG’s work and confirmation that the new Strategy for Taxation is on course to be published in May 2024 as planned.

Resource spending

15. The SPICe briefing on the Scottish Budget 2024-25 notes that eight portfolios increase in both cash and real terms, with the largest real terms percentage increases in Social Justice (which includes social security spending) and Justice – both see increases of 11.2% in real terms. It further notes that the NHS, Health and Social Care portfolio benefit from an increase of 1.6% in real terms on 2023-24 figures.

16. The Scottish Government announced as part of the Budget that it is providing £6.3bn for social security payments, an increase of almost £1bn on 2023-24 figures. This includes increasing the Scottish Child Payment in line with inflation. The SFC, in its [Fiscal Sustainability Report](#) published in March 2023, projects that social security spending will reach £13bn in 2072-73, when there is a projected budget gap of £1.5bn.
17. In its Report, the Committee asked the Scottish Government how it will continue to assess the long-term affordability and sustainability of its social security policies and their impact on other areas of spend, particularly in light of the long-term challenges highlighted by the SFC.
18. The Committee further said it was unclear, in light of spending cuts to further and higher education, enterprise agencies, and employability, how the Scottish Government has, as intended, prioritised its spending towards supporting the delivering of a fair, green and growing economy. More broadly, it requested further details of the Scottish Government's plans to produce a labour market participation plan which, the Committee suggested, should include proposals to reduce economic inactivity and set out how it is engaging with business and further and higher education sectors to ensure the plan addresses current and future skills challenges.

Capital funding

19. The Committee has previously expressed concerns regarding reductions to the capital budget by the UK Government. The SFC December 2023 Forecasts expect capital spending to fall by 4% in real terms between 2023-24 and 2024-25, and by 20% in real terms between 2023-24 and 2028-29. The Scottish Government plans to make full use of its capital borrowing powers (of £458m) under the updated Fiscal Framework to support capital investment in 2024-25 and will consider accessing alternative sources of capital borrowing in future.
20. The Committee, in its Report, urged a change in policy in the UK Spring Budget "to enable more investment in infrastructure to stimulate economic growth" and sought further information from the Scottish Government on how it is using its limited capital spend in a strategic way that levers in private investment. Specific concerns of witnesses relating to reductions to the housing budget were also highlighted in the Committee's Report.
21. The Deputy First Minister in her closing remarks in the Stage 1 debate on the Budget Bill stated that "capital availability is the number 1 priority for me—getting more capital at the Spring Budget on 6 March was the number 1 ask that I made of the Chief Secretary to the Treasury when I met her two weeks ago". She made similar points during the Pre-Budget Debate a week earlier, stating "the cuts to capital funding are causing real issues for the Scottish Budget, particularly our health and housing capital budgets". She added that those would be the top priorities to be addressed should additional capital funding become available.

22. The Scottish Government delayed publication of an updated infrastructure project pipeline, which was due to become available at the same time as the Budget. The Committee reported that it is not convinced of the need to wait until after the UK Spring Budget before publishing this pipeline and considered that the Scottish Government “should have been upfront about the delay and the reasons behind it”. The Committee asked for the updated pipeline and Infrastructure Investment Plan to be instead published by Easter 2024.
23. However, during the Pre-Budget Debate on 1 February, the Deputy First Minister said that the Scottish Government plans to publish the updated pipeline alongside the next Medium-Term Financial Strategy in May 2024, “as it is important that future investment plans are embedded in our wider thinking on fiscal sustainability [and ...] that will be after the spring budget comes out”.

Transparency

24. The Committee has welcomed its continuing engagement with the Scottish Government to date on enhancing the transparency of budgetary information, including producing information by Classification of the Functions of Government (COFOG) and committing to provide a comparison of its spending plans with the latest estimates or outturns from the previous year’s spend in January 2024.
25. However, the comparative data was not provided to the Committee until the day of the Stage 1 debate. The Committee asked in its Report that, in future years, this comparative data is published alongside the Scottish Budget to maximise transparency and opportunities for scrutiny.
26. Throughout its Report, the Committee questioned the extent to which the Scottish Government has prioritised its taxation and spending plans to deliver its three Missions of Equality, Opportunity and Equality. The Committee said it is “unclear from the information provided that a rounded strategic approach has been taken to assess and prioritise those areas of spend that will make most impact in delivering these Missions”. It has therefore asked that, in future years, the Scottish Government provides a more detailed explanation of the Scottish Government’s assessment of spend against its overall priorities, along with the trade-offs it has had to make.

Public service reform and pay/workforce

27. As part of its inquiry into the Scottish Government’s public service reform programme, the Committee expressed concerns that the focus has, since May 2022, changed multiple times, as have the timescales for publishing further detail on what the programme will entail. The Scottish Government provided its first six-monthly update on the programme alongside the 2024-25 Budget. While recognising that the update set out welcome principles and objectives for the programme, the Committee saw few signs of progress. It therefore asked the Scottish Government to revisit the recommendations in its Pre-Budget 2024-25

Report, including producing a financial strategy for the programme, as committed to back in March 2023.

28. The Committee noted that “without a coherent reform programme in place, we are concerned that financial pressures will drive a series of uncoordinated cuts across the board, rather than genuine reform aimed at enhancing the delivery of public services. The Committee further sought clarity around the 5% efficiency saving set out in one portfolio in the Scottish Budget that “has been taken across all public bodies as part of public service reform” but is not repeated more widely in the document.
29. The Scottish Government also delayed producing a public sector pay policy for 2024-25 until after the UK Spring Budget. The Committee concluded that “given the significant and rising public sector pay bill and its effect on the Scottish Budget, publishing the policy alongside the Budget as usual would have provided much needed clarity and certainty”. It further requested clarification that this year’s pay policy 2024-25 will be published as early as possible after the UK Spring Budget and that it will include clarification of the Scottish Government’s plans for reducing the public sector workforce to more sustainable levels.
30. The Deputy First Minister, during the Pre-Budget Debate on 1 February, said she recognised the Committee’s desire for genuine public service reform, adding “that is why we have laid out broader goals and a programme of action”. She went on to say that “we are now working across Government on our critical path to delivery” and “it is also important that we take our workforce with us in that process”.

Recent developments

31. [Office for National Statistics data](#) published on 14 February 2024 show that inflation (by the Consumer Prices Index) rose by 4.0% in the 12 months to January 2024, the same rate as in December 2023, and down from the peak of 11.1% in October 2022.
32. [Latest figures by the ONS](#) published on 15 February 2024 show that the UK fell into recession in the second half of 2023, with GDP shrinking by 0.3% between October and December 2023 and by 0.1% in the previous quarter (July to September). GDP grew by 0.1% in 2023 compared with the previous year. The ONS statistics show falls in all three main sectors in Quarter 4 of 2023, with declines of 0.2% in services, 1.0% in production, and 1.3% in construction output.
33. At its last meeting on 31 January 2024, the Bank of England Monetary Policy Committee (MPC) voted by a majority (6-3) to maintain interest rates at 5.25%. Its [Summary](#) of that meeting states that “the MPC remains prepared to adjust monetary policy as warranted by economic data to return inflation to the 2% target sustainably”. It goes on to say that “it will therefore continue to monitor closely indications of persistent inflationary pressures and resilience in the

economy as a whole, including a range of measures of the underlying tightness of labour market conditions, wage growth and services price inflation”.

Next steps

34. Stage 2 proceedings on the Budget (Scotland) (No. 3) Bill will take place immediately following this evidence session.
35. The Parliamentary debate on the Scottish Rate Resolution, which sets the rates and bands for Scottish non-savings, non-dividend taxable income for the following tax year, is scheduled for 22 February, and Stage 3 proceedings on the Budget (Scotland) (No. 2) Bill will follow on 27 February.

Committee Clerking Team
February 2024