Finance and Public Administration Committee
1st Meeting 2025 (Session 6)
Tuesday 7 January 2025

Scrutiny of the Scottish Budget 2025-26: public service reform

Purpose

1. The Committee is invited to take evidence from the following witnesses in relation to the Scottish Government's Public Service Reform (PSR) Programme as part of its scrutiny of the Scottish Budget 2025-26—

   Panel 1
   - Stephen Boyle, Auditor General for Scotland, and
   - Fiona Diggle, Audit Manager, Performance Audit & Best Value, Audit Scotland.

   Panel 2 (in roundtable format)
   - Garry McEwan, Head of Corporate Services, Food Standards Scotland,
   - Mary Morgan, Chief Executive, NHS National Services Scotland,
   - Chris Kerr, Corporate Policy Director, Registers of Scotland,
   - Lynne Raeside, Deputy Director of Policy and External Affairs, Scottish Funding Council,
   - Jane Morrison-Ross, Chief Executive, South of Scotland Enterprise, and
   - Alison Irvine, Chief Executive, Transport Scotland.

2. The Committee has agreed to focus its scrutiny of the Scottish Budget 2025-26 on the three themes[1] from its pre-budget 2025-26 report published on 7 November 2024. One of those themes is examining progress with the Scottish Government's public service reform (PSR) programme.

3. This paper therefore sets out background to the two sessions to take place on 7 January 2025, along with relevant points from the Committee's pre-budget 2025-26 report and the Scottish Government's response to it, the Scottish Budget 2025-26, and the Auditor General for Scotland's Fiscal Sustainability and Reform in Scotland report.

4. Background information on the UK context to the Scottish Budget is provided at Annexe A and on the Scottish Government's Tax Strategy at Annexe B.

5. Written submissions have been received from Registers of Scotland, the Scottish Funding Council, Transport Scotland, NHS National Services Scotland, Food Standards Scotland and South of Scotland Enterprise. These are attached at Annexe C.

[1] The other two themes are the Scottish Government's tax strategy and tax policies and growing the economy.

Background

Inquiry

6. The Committee undertook an inquiry into the Scottish Government's PSR Programme in 2023, publishing the recommendations arising from this work as part of its pre-budget 2023-24 report in November 2023. The Committee agreed to continue to consider progress with the reform programme as part of its pre-budget scrutiny each year thereafter.

7. In response to the Committee's 2023-24 pre-budget report, the Scottish Government has committed to providing six-monthly updates on progress with its PSR programme in May/June and December. Its second full update was received on 23 September 2024. In its pre-budget 2025-26 report published on 7 November 2024, the Committee expressed disappointment that this delay had limited its ability to fully examine the update and therefore agreed to consider it in more detail as part of budget scrutiny 2025-26. The Scottish Government's response of 4 December stated that the delay had been "due to various reasons including the UK pre-election period" and that "the Minister is committed to submitting an update report in December 2024 to return to the original reporting pattern [and] beyond December 2024, our intention is to give a full update utilising the same approach". At the time of publishing this paper on 19 December, the December update report had not been received.

8. For the roundtable evidence session taking place on 7 January 2025, the Committee has invited a number of the same organisations[2] it heard from on 30 May 2023 as part of its PSR inquiry, to explore progress with reform in the public sector and the support and leadership being provided by the Scottish Government to help facilitate this reform. As the public bodies represented are from different sectors, sizes and types, the Committee may wish to explore the different approaches taken, challenges, and barriers to reform, along with examples of good practice, such as collaborative working and shared services and premises.

9. By way of background, the issues discussed on 30 May 2023 include—

- Public bodies should be 'mandated' to reform to deliver cost savings and improved services. There is a need for incentives to collaborate otherwise people "tend to pick off the bits round the side that do not threaten their own jobs".
- Examples of good practice, such as bodies co-funding posts to achieve certain outcomes or to share a particular skillset, including digital and data analysts where there are specific skills shortages.

[2] Food Standards Scotland, NatureScot, Registers Scotland, South of Scotland Enterprise, Transport Scotland, and the Scottish Funding Council. It has also this time invited NHS National Services Scotland given that a significant proportion of the Scottish Budget goes on health, and the Fair Work Convention to discuss the extent to which fair work is being considered as part of the PSR programme.

- One organisation said they had achieved reforms through "radical prioritisation", pushing joint-partnership working as much as possible and continuing to review processes each year. Another body said it had moved from a 'platinum' standard down to a 'gold' or 'silver' standard to meet required efficiencies.
- "Cultural friction" can occur when organisations are brought together into one structure and can require effort and engagement with staff and stakeholders to "bring people along" with the new body.
- To "collaborate really powerfully, we need to be able to share data across public services, we need systems that talk to each other across public services [and] there is also opportunity around automation of processes and bringing in artificial intelligence to deliver efficiency and improve quality".
- Savings that are achieved by an organisation(s) should be ploughed back into continuing to improve services they deliver.
- PSR requires underpinning investment in infrastructure and data, a clear and shared vision to drive reform, and strong leadership. It was argued that the Scottish Government needs to be an "enabler of reform".
- Progress should be measured through corporate reporting, with organisations asked to include an indicator within their reporting mechanisms to show how they are making progress against reform objectives.
- There was concern regarding the number of public bodies, with some witnesses suggesting that the "landscape is quite cluttered".

Second full PSR update – September 2024

10. The Scottish Government's 23 September update states that—

> "There is a pressing requirement for reform to ensure fiscal sustainability. However, the route to achieving that fiscal sustainability is not about a focus on reduction in services, it is about reducing the demand for public services ('prevention') and changing the model of service delivery for better results. In short this is about focussing on improving outcomes, and ultimately improving people's lives."

11. The update also sets out the intended outcomes of the PSR programme as follows—

- "to ensure public services remain fiscally sustainable, by reducing the costs and reducing long-term demand through investment in prevention,
- to improve outcomes, which will improve lives and reduce demand, and
- to reduce inequalities of outcome among communities in Scotland, recognising the need not just for improved outcomes, but a focus in policy and delivery on those most disadvantaged."

12. Activity under this programme is grouped under three broad categories of: (1) driving efficiency and effectiveness, (2) service change and prevention, and (3)

enabling structures. Progress has included cash savings of £5.5 million in 2023-24 and £15 million in 2024-25 through “specialist property negotiation around asset strategy for the Single Scottish Estate, liabilities for lease ends and rates combined with expert financial management”. The Scottish Government estimates further savings of £8 million in 2025-26 and 2026-27.

13. Through its Commercial Value for Money programme, £4 million of cashable and £600,000 non-cashable savings have been delivered “with little or no impact on policy delivery”, and a further £50 million of savings are projected in 2026-27. Progress with individual projects is also included in the update, along with a copy of the draft Ministerial Control Framework (MCF): The Approvals Process for the Creation of New Public Bodies in Scotland: Guidance for SG Directorates (May 2023). The MCF restates the Scottish Government’s policy that any new public body should only be set up as a last resort and sets out criteria to be met before any new public bodies are created. The Scottish Government has asked for the Committee’s comments on the draft MCF.

14. The Scottish Government’s update outlines that 143 automations have been delivered through the Intelligent Automation Centre of Excellence, with a further 469 in the pipeline. It further notes that, over the next three years, “improving productivity using AI enabled automation has the potential to yield additional capacity equivalent to over 700 Full-Time Equivalents (FTE) across [the] Scottish Government”.

15. Also included in the update is information on how portfolios are driving service improvement, efficiency, effectiveness and improving the operation of public bodies, including the following commitments—

- Supporting primary care to deliver high quality preventative health and care services by increasing the capacity of, and access to, general practice, community pharmacy, dental and community eyecare services by end 2026.
- Working with all NHS Boards towards delivery of a minimum of 3% recurring savings against the baseline budget annually.
- Supporting Health Boards to implement alternative pathways and “high impact changes to support people being seen more quickly, improve efficiencies and increase capacity to ensure sustainability”.
- Driving service improvement across the education and skills system through a new, national approach to skills planning, reforming the funding system so it is easier to navigate and more responsive.
- Delivering a reformed Education Scotland with separation of HM Inspectorate of Education by Autumn 2025.
- Initiating a programme of reform to optimise the performance, functions and configuration of the Scottish economic development system.
- Driving forward a transformational change programme to improve the efficiency and effectiveness of the criminal justice system.

16. As noted above the Scottish Government’s December update report has yet to be received at the time of publishing this paper.

AGS Fiscal Sustainability and Reform in Scotland report

17. The Audit Scotland report on Fiscal sustainability and reform in Scotland was published on 21 November and focuses on the Scottish Government's leadership on fiscal sustainability, progress on PSR, and the impact of the reform programme. The report was also considered by the Public Audit Committee at their meeting on 5 December, when the Committee took evidence from the Auditor General for Scotland (AGS).

18. The report finds that "the Scottish Government continues to take short-term decisions, reacting to events rather than making fundamental changes to how public money is spent", noting that "this approach has so far been effective in balancing the budget, but risks disrupting services at short notice and restricting progress towards better long-term outcomes for people". It highlights predicted budget shortfalls, as set out in the Scottish Government's Medium-Term Financial Strategy (MTFS), published in May 2023, alongside increasing pressures, arising from both the operation of the fiscal framework and growing demands on public spending. Exhibit 2 in the report, which sets out some of these short- and long-term pressures, is replicated below.

Time period	**Implications for the Scottish Government**
UK fiscal environment	• Changes to UK Government funding must be managed throughout the financial year • Lack of a UK Government spending review means the Scottish Government does not know what funding it will receive over the medium term • Devolved public sector funding is projected to grow at a slower rate than spending over the longer term • Management of the financial impact of UK Government budget decisions in areas of tax and spending that are devolved
Demands on the Scottish Government	• Health spending to increase as result of an ageing population • A relatively larger public sector workforce in Scotland than in the rest of the UK • Rising costs and increased demand for public services as a result of the recovery from Covid-19 and the cost-of-living crisis • Scottish Government budget decisions in areas of tax and spending that are devolved (eg, funding of a council tax freeze, social security spending and more generous pay deals)

Source: Audit Scotland

19. In a previous report on the operation of the fiscal framework, published in 2018[3], Audit Scotland stated that "increasingly the Scottish Government will need to understand where it is most able to quickly alter spending, and understand what

[3] Scotland's new financial powers: Operation of the Fiscal Framework

options are available to it in responding to budget fluctuations". The current report considers the impact of the Scottish Government having to make large in-year changes to its budget. It states that the long-term impact of reductions in spending has not been consistently and publicly set out, highlighting that, "during the process of developing the 2024/25 Scottish Budget, no portfolio accountable officer was able to provide assurance that they would be able to fund their existing commitments with the initial allocations provided to them". While assurances were eventually provided, following savings and reprioritisation decisions, it remains the case that—

> "The Scottish Government does not know where it can flex its budget easily to accommodate short-term fluctuations or longer-term commitments."

20. Exhibit 4 of the report provides examples of in-year reductions and increases in funding in 2022/23 and 2023/24, showing that the funding areas that saw the most significant increases were the same in both years.

Funding decreases in 2022/23	**Funding increases in 2022/23**
• Energy and energy efficiency • Housing and building standards • Agricultural support • Scottish Water • Enterprise, trade and investment	• Health and social care • Local government pay awards • Police and fire service pensions • Ukrainian refugee resettlement • Social security benefits
Funding decreases in 2023/24	**Funding increases in 2023/24**
• Energy efficiency and decarbonisation • Active travel, low-carbon and other transport • Ferry services • Scottish Funding Council • Learning	• Health and social care • Local government pay awards • Police and fire service pensions • Ukrainian refugee resettlement • Social security benefits

Source: Audit Scotland

21. The report notes overspending risks, also highlighted in previous Audit Scotland papers, remain in 2024/25, "particularly given the increase in public sector workforce costs. Policy commitments made by the Scottish Government such as its funding of a council tax freeze, social security spending and more generous pay deals in Scotland have also contributed to the pressures it is experiencing in 2024/25". It furthers notes that, while pay deals agreed for 2024/25 "have, in part, been met by delaying spending and drawing down one-off sources of funding", "the Scottish Government does not know how this higher spending will be funded in the future".

22. The Scottish Government's decision not to publish an MTFS in 2024 increases uncertainty, and the report goes on to state that "the absence of up to date information on the fiscal position makes scrutiny more challenging and prolongs key decision-making processes". One of the report's key messages, is that—

> "The Scottish Government has identified a growing gap between its medium-term funding and spending position, but it has not yet set out a clear vision of how it will change public service delivery models to better support sustainable public finances and services. It does not yet have a good enough understanding of its cost base or made progress against audit recommendations to improve its future responses to crisis events."

23. The need to publish fully transparent and comprehensive financial and infrastructure medium-term strategies was also emphasised during the Public Audit Committee's evidence session, when the AGS stressed the need for a medium-term financial strategy, a capital plan and an NHS plan as well as clarity on the fiscal sustainability delivery plan to support parliamentary scrutiny and understanding of financial decisions".[4]

24. In relation to public service reform, the report finds that—

> **"**The Scottish Government has not provided the necessary leadership to public sector bodies to help deliver a programme of reform. It has not yet fully established effective governance arrangements for reform, and it is unclear what additional funding is required."

25. It notes that three different approaches to public sector reform have been set out by the Scottish Government since the 2019 pandemic, in the Resource Spending Review, the 2023 MTFS and in the December 2023 update, and the "change in emphasis across these approaches makes it difficult to determine the baseline for reform and to understand when the Scottish Government expects to achieve fiscal sustainability, or delivery milestones towards that goal." Exhibit 6, on page 20 of the report, provides a timeline for the Scottish Government's public service reform programme, which illustrates successive changes in approach and emphasis.

26. The Auditor General states, in his report, that despite the different scale of reform set out in the current PSR programme, "the levels of resource and effort being invested in each one, the extent of the change that will ultimately be delivered, or how these work towards the objectives set out, are not clear". The report explains that key foundations for good reform, such as appropriate governance and accountability structures, a clear vision and leadership, are missing or incomplete, delaying progress.

27. Exhibit 8 on page 23 of the report provides an overview of progress against the four PST workstreams set out in the December 2023 update. Audit Scotland analysis finds that, despite the approach being appropriate in principle, "progress against each activity is not always set out consistently, and in many cases there is no detail on costs or timelines [which] makes it harder to judge whether the approach set out is adequate".

28. The financial cost of, and potential savings arising from reform remain unclear, according to the report. Audit Scotland notes that despite the Scottish

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[4] [Meeting of the Parliament: PA/05/12/2024 | Scottish Parliament Website]

Government contacting public bodies three times since January 2023 to assess their ability to carry out reform, “these requests did not generate concrete information on the quantity, quality or anticipated impact of public bodies’ collective work on reform”. In August 2023, public bodies set out the support required from the Scottish Government in order to overcome barriers and deliver reform (summarised in Exhibit 9, page 25 of the report), however, the report finds “no evidence that specific action has been taken to remove these barriers.”

29. The report states that previous Scottish Government’s governance arrangements for reform were ineffective, noting changes in spring 2024, including the creation of a PSR board, which aims to drive the delivery of reform and which will have the authority to direct existing work and establish new areas of work, an approach that “should strengthen the governance structures for carrying out reform”. Nevertheless, the report highlights a continuing lack of leadership. It states that the Scottish Government commitment, set out in the December 2024 update, to agreeing on a shared approach by March 2024, working with local government and with the wider public and third sector to align, enable and deliver savings, “has not been met, and so far there is no evidence of a clear shared approach across the public sector”. The report therefore asks for greater leadership and strategic direction from the Scottish Government, pointing to the 2023 mandate letters issued by the then-First Minister as “positive steps in improving strategic direction”. The report recommends that this approach is expanded, linked to the National Performance Framework, and accompanied by details on the impact of spending changes and reprioritisation.

30. On the impact of reform, the report notes that, despite two of the three objectives of the reform programme being aimed at improving outcomes, the Scottish Government has not yet established an approach for monitoring how reform will affect outcomes, and impact on outcomes is not currently considered or monitored as part of the reform process. Progress on developing a performance monitoring framework has been slow due to capacity constraints and the plan for the intended framework does not include metrics for equalities and human rights issues—

> “It is therefore important that the Scottish Government understands how the financial decisions it takes as part of its PSR programme will affect different groups in society, to minimise the negative impacts of changes to public spending on people’s outcomes.”

31. The report identifies remaining challenges in relation to the collection of good quality data about the public sector workforce and estates, which makes it difficult to understand how reform activity will affect costs, the ability of public bodies to carry out reform, and changes to productivity in the public sector. Lastly, it states that “the Scottish Government’s reporting to Parliament and the public on the progress and implications of reform and fiscal sustainability has been insufficient”. The report recommends that the Scottish Government—

- “As part of its public service reform programme update in summer 2025 set out a clearer vision of what reform will achieve […]

- Before the end of 2024/25 embed the new governance arrangements to deliver this vision and to support greater collective action on public service reform.
- In time for the 2026/27 budget, improve the quality of information collected from its directorates and public bodies on savings, costs and progress on reform, and integrate these into wider information collection processes. […]
- By September 2025, review and update the mandate letters it issued in September 2023, and use these to maximise the effect of portfolio spending towards reform and government priorities. If the Scottish Government chooses not to publish mandate letters, then this information should be included in other publications.
- Build equalities and human rights into its decisions about public service reform to understand how financial decisions will affect different groups in society and minimise the negative impacts on people's lives. The Scottish Government should be able to report significant progress on this by the end of 2025."

Pre-budget 2025-26 report and Scottish Government response

32. In its pre-budget 2025-26 report, the Committee recommended that the Scottish Government should—

- Provide more information in its six-monthly updates on the upfront costs allocated to reform and cumulative savings. *The Scottish Government's response to the report did not include any reference to this recommendation.*
- Consider adopting "a more structured model of enabling exchanges between staff in the public and private sector, including flexible career pathways" and set out progress to achieving this mode of working in its six-monthly updates. *The Scottish Government responded that it would continue to use inward secondments "within a broad range of actions to build capabilities" and that outward secondments "will continue through the existing schemes" and remain as a development opportunity. It is updating its workforce plan, which includes capability planning activity and ensuring inward secondments are "being used to best effect to bring in specific skills and experience in targeted areas".*
- Consider and report back to the Committee on the potential benefits, risks and costs of introducing a new category of public expenditure on preventative spend. *The Scottish Government stated that it is "taking forward work on preventative spend as part of the PSR programme and will update the Committee in due course". This work includes developing case studies examining post devolution examples of prevention that have resulted in improved outcomes, cost savings and/or reduced demand".*
- Provide further details of how it will use the Committee's report on Scotland's Commissioner Landscape: A Strategic Approach, to "set the tone" of the review of the public sector landscape. *The Scottish Government stated that "we have committed publicly that any new body*

should be created only as a last resort". It further explained "we have also given a clear message to public bodies that we should not follow existing operational practices if public bodies can work more efficiently by adopting new arrangements, nor should the current public bodies landscape remain as it is if we can secure savings and improve service delivery by rationalising public bodies". It said it is finalising an assessment process to support the ongoing review of its existing public bodies.

- Drawing on the experience of Estonia, where 1% of GDP is earmarked as stable state funding for IT (since 1998), consider whether Scotland should create a permanent spending commitment on IT, which can endure beyond political cycles. *The Scottish Government responded that it is currently implementing a portfolio approach to how its manages and implements digital projects which "will ensure the delivery of a portfolio of projects that is right sized to available funds and capability".*
- Set a standard for the interoperability of any newly created digital public service systems. *The Scottish Government indicated that its Digital Directorate's approach "is exactly what is being requested" and that it is also "pursuing interoperability of data for legacy digital public service systems".*

Scottish Budget 2025-26

33. The Scottish Government states in the Scottish Budget 2025-26 that it will focus "on doubling down on reform and efficiencies across our public sector" and that the PSR programme "is vital to improving outcomes and achieving sustainable public finances in the longer term". It highlights that "to do that we will focus on early interventions and prevention, moving our system to working with people and communities, understanding their needs and giving them what they need to thrive". It goes on to state that—

> "We have set out a 10-year programme of PSR to Parliament, with a strong focus on the data, levers and workforce that will drive efficiency. To enable this work, we will deliver an Invest to Save fund in 2025-26, backed by up to £30 million of funding recognising the need to catalyse efficiency, effectiveness and productivity projects as part of the PSR programme. We will integrate progress on PSR into the forthcoming Fiscal Sustainability Delivery Plan."

Public Sector Pay Policy

34. Alongside the Scottish Budget 2025-26, the Scottish Government published its Public Sector Pay Policy 2025-26, which sets "pay metrics that are fair, sustainable and realistic within a multi-year pay envelope of 9% over 2025-26, 2026-27 and 2027-28 set against an expected inflation forecast of 7%, ensuring a level of pay restoration". Flexibility is being provided for employers to configure three-year proposals within the 9% pay envelope, "provided they have a fiscally sustainable approach". Any employer that does not agree a three-year pay deal will be restricted to a maximum 3% pay uplift for 2025-26.

35. The Scottish Fiscal Commission (SFC) in its December 2024 Economic and Fiscal Forecasts states that “although the Scottish Government has been clearer this year in setting out its pay policy, risks remain that paybill growth may be larger than planned either as a result of pay pressures or workforce changes”. It went on to say that—

> “There may also be other factors which affect pay pressures such as pay progression within pay-bands, changes in the structure of grades within the public sector, vacancies and turnover which will also need to be accommodated by portfolios within their allocations as the Scottish Government has not made provision for increases in the paybill other than the 3% pay award. The size of the workforce is also an important lever to manage the paybill. The Scottish Government has indicated that it will set out further detail on what this means for the public sector in Scotland as part of a Fiscal Sustainability Delivery Plan published alongside the Medium Term Financial Strategy, noting protection for frontline staffing, such as in the NHS.”

36. The SFC has therefore, in addition to the 3% basic pay award, assumed that “the other factors such as pay progress add, based on historical data, an additional 1.5 percentage points to average pay growth, summing to 4.5% average pay growth in total in 2025-26”. It goes on to say that “while there have been improvements in the information provided by the Scottish Government, there is still a need for greater clarity and monitoring of pay costs and workforce plans in the Scottish Budget”.

Next steps

37. The Committee will continue taking evidence in relation to the Scottish Budget 2025-26 on 7 and 14 January 2025.

Committee Clerking Team
December 2024

ANNEXE A

Background to the Scottish Budget 2025-26

UK Government's public spending audit 2024-25

1. The UK Government published the outcomes of HM Treasury's Fixing the foundations: public spending audit 2024-25 on 29 July 2024, which "shows that the forecast overspend on departmental spending is expected to be £21.9 billion above the resource departmental expenditure limit totals set by HM Treasury in the Spring Budget 2024". The document set out "savings that have been identified [which …] together … will deliver £5.5 billion savings in 2024-25 rising to £8.1 billion in 2025-26", including departments absorbing public sector pay pressures and reducing consultancy and marketing spend. In addition, winter fuel payments would be targeted from this year.

2. The Chancellor of the Exchequer further announced that a multi-year Spending Review will conclude in Spring 2025[5] which will set spending plans for a minimum of three years of the five-year forecast period and "departmental expenditure limits for 2025-26 will be set out alongside the Budget in October, which will also confirm control totals for 2024-25". The Guardian reported on 28 November that the Spending Review would be delayed due to "drawn out and complex negotiations" and will now be published in June 2025. However, the same report states that Government officials have indicated there is no delay and the Review was always intended to be published between May and July.

3. The Cabinet Secretary for Finance and Local Government, Shona Robison MSP, confirmed in a letter to the Committee on 23 August 2024 that "… additional measures are now necessary following the UK Treasury's recent audit of public spending and lack of clarity over whether their decision to deliver Pay Review Body recommendations will be fully funded".[9] She advised that the Scottish Government has "introduced a set of spending controls with the intention of further reducing spend in 2024-25" and that it will replicate in Scotland the UK Government's decision to target winter fuel payments. In her fiscal statement to the Scottish Parliament on 3 September, the Cabinet Secretary outlined up to £500 million of further savings measures including resuming peak train fares and not progressing the concessionary fares extension to the asylum seekers' pilot. At that time, she was also planning on using up to £460 million of ScotWind money to plug funding gaps.

4. The Committee took evidence from the Minister for Public Finance on 12 November 2024 in relation to the Autumn Budget Revision which includes some of these changes to spending plans for 2024-25.

[5] The UK Autumn Budget 2024 confirmed that the UK Government would be carrying out a Spending Review to conclude in **late** Spring 2025.

UK Autumn Budget 2024

5. In the UK Autumn Budget 2024 published on 30 October 2024, the Chancellor announced significant increases in public spending, financed by a combination of tax rises and higher borrowing. Public spending is set to increase by £70 billion per year over the next five years, with two-thirds going to day-to-day resource spending, and one-third to capital spend, such as transport, housing and research and development. The Chancellor suggested that this rise in capital spending will “keep public investment broadly flat at around 2.5% of GDP over the next five years, rather than dropping to the 1.7% assumed in the previous Government’s plans”[6]. The national minimum wage will increase to £12.24 an hour from April 2025 (an increase of 6.7%); the rate for 18–20-year-olds will increase from £8.60 to £10 per hour and the minimum wage for apprentices will rise from £6.40 to £7.55 per hour. In addition, extra funds have been allocated for the infected blood and Post Office horizon compensation schemes.

6. Key tax measures announced by the Chancellor include—

   - Employer **National Insurance Contributions** (NICs) will rise by 1.2% to 15% from 6 April 2025. The level at which employers will start paying NICs for each employee is to fall from £9,100 to £5,000. This measure is forecast to raise £25.7 billion per year by 2029-30.
   - **Capital gains tax** will rise on disposals made on or after 30 October 2024 (the lower rate from 10% to 18%, and the higher rate from 20% to 24%).
   - The freezing of **inheritance tax thresholds** will be extended to 2030[7]. From April 2026, inheritance tax relief for business and agricultural assets will be capped at £1 million, with a new reduced rate of 20% being charged on assets above that.
   - **Value-added Tax (VAT)** will be charged on private school fees across the UK.
   - The temporary 5p cut in **fuel duty** announced by the previous Government will be extended for one year to 2025-26.
   - The freeze in **income tax thresholds** will end in 2028-29, at which point thresholds will increase in line with inflation (England only).

7. The Chancellor also announced increases in borrowing, averaging around £32 billion per annum higher than the previous Government’s plans over the forecast period. To allow space for this extra borrowing, the Chancellor changed the definition of debt in her fiscal rules. The Office for Budget Responsibility (OBR) has explained that the UK Government intends “to target Public Sector Net Financial Liabilities (PSNFL) as the main balance sheet aggregate in its fiscal rules”. PSNFL is a wider measure of debt which includes financial assets and liabilities (such as the Student Loan Book and funded public sector pension schemes), meaning interest rates may take longer to fall[8].

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[6] Autumn budget 2024: Key announcements and analysis - House of Lords Library
[7] The previous UK Government had announced that this freeze would continue until 2028.
[8] Report on Pre-Budget Scrutiny 2025-26 - Managing Scotland's Public Finances: A Strategic Approach

8. Decisions in the UK Autumn Budget have led to additional consequential funding for the Scottish Budget, with £1.5 billion added to this year's budget[9] (2024-25), rising to £3.4 billion for 2025-26[10]. During evidence to the Committee on the Autumn Budget Revision on 12 November 2024, the Minister for Public Finance said that "we welcome the additional funding, but that funding is necessary to correct for persistent underinvestment in public services and to address the cost pressures that we face". He went on to explain that "the amounts provided by way of consequentials arising from the UK autumn budget are broadly consistent with what has been factored into our planning and we are therefore not in a position to reverse the savings that were previously announced".[11]

9. While public sector employers are expected to be compensated by HM Treasury for higher costs resulting from the NICs increase, it has yet to be confirmed what level of compensation will apply to Scotland, which has a larger proportion of its working population employed in the public sector than in England. In October 2024, the Scottish Government estimated that the UK Government's increase in NICs would add £500 million to Scottish public sector costs.[12]

10. On 20 November 2024, the Scottish Government published the indicative costs of the policy to the Scottish public sector based on newly collected data, gathered by the Scottish Government between 8 November and 15 November 2024 from estimates provided by portfolios and organisations. Key findings include that "the static increase in employer NICs might cost between £520 million and £580 million in financial year 2025 to 2026 for directly employed public sector employees in Scotland's devolved public sector, with a central estimate of £550 million". The Scottish Government also notes the latest estimates on potential Barnett consequentials of up to £380 million, suggesting a potential shortfall of around £140 million to £200 million. However, it adds that this estimate of up to £380 million is subject to a high degree of uncertainty and could be much lower if, for example, some of the additional funding does not generate consequentials, or higher if HM Treasury chooses to increase the overall sum available outside the normal operation of the Barnett formula.

11. The OBR observes in its October 2024 Economic and Fiscal Outlook that "the cancellation of the SFC's May forecast due to the announcement of the General Election means that its most recent forecast was published in December last year". It goes on to suggest that "the gap between this previous SFC forecast and ours means that making a detailed comparison and analysing differences between the forecasts is less informative than usual at this stage".

[9] The Scottish Budget 2024-25 approved by Parliament earlier this year amounted to approximately £60 billion.
[10] £1.5 billion baselined into the 2024-25 Budget, and an additional £1.9 billion added for 2025-26, totals £3.4 billion.
[11] Official Report
[12] What's in the UK Budget? Ask Reeves. – SPICe Spotlight | Solas air SPICe

ANNEXE B

Scottish Budget 2025-26 – Scottish Government's Tax Strategy

Background

1. Since the devolution of tax powers in the Scotland Act 2012, the Scottish Government's approach to tax has been based around Adam Smith's four principles of taxation: Certainty, Proportionality, Convenience and Efficiency. The Scottish Government's Framework for Tax (2021) added two additional principles intended to guide the approach to tax policymaking: Engagement and Effectiveness.

2. The Scottish Government published Scotland's Tax Strategy: Building on our Tax Principles ("the Strategy") on 4 December 2024, alongside the Scottish Budget 2025-26. The 2025-26 Budget document explains that the Strategy is intended to expand on the Scottish Government's Framework for Tax sets out the Scottish Government's approach to tax over the medium term across the devolved and local tax system.

Pre-Budget Scrutiny 2025-26

3. As noted earlier in this paper, one of the themes of the Committee's Pre-Budget 2025-26 Scrutiny on Managing Scotland's Public Finances: A Strategic Approach was on the Scottish Government's approach to taxation[13]. During this scrutiny, witnesses expressed a range of views regarding what the Strategy should include. The Committee heard that the Strategy should move beyond the 'theory' set out in the 2021 Framework for Tax and should provide a clear direction on tax policy. The Committee also heard that the Strategy should focus on the main revenue raisers – Scottish income tax, non-domestic rates, and council tax.

4. In its Pre-Budget Scrutiny 2025-26 report, the Committee recommended that the Strategy should provide a framework within which tax policies are designed to contribute to the longer-term sustainability of Scotland's public finances. The report also recommended that the Strategy should specify that, when developing future tax policy, the Scottish Government should assess how individual rates and bands in Scotland would interact with the UK-wide tax system, to avoid issues associated with anomalies relating to marginal tax rates in Scotland arising.

[13] The other two themes were on how the Scottish Government is using its capital expenditure to achieve innovation, productivity, and growth, and progress with the Scottish Government's public service reform programme.

5. The report further noted the Committee's intention to examine, as part of Budget 2025-26 scrutiny, the Scottish Government's Tax Strategy.

The Tax Strategy

6. As noted above, the Scottish Government published Scotland's Tax Strategy: Building on our Tax Principles ("the Strategy") on 4 December 2024, alongside the Scottish Budget 2025-26.

7. In the Ministerial foreword to the Strategy, the Cabinet Secretary for Finance and Local Government explains that the Strategy is intended to set out "the steps that will underpin this government's approach to developing tax policy; ensure the tax system raises the revenue needed to achieve our priorities; and support our growing economy".

8. The Scottish Government explains that the Strategy sets out the Scottish Government's medium-term ambitions for how the tax system will develop to support the delivery of its four priorities: eradicating child poverty, growing the economy, tackling the climate emergency, and ensuring high quality and sustainable public services.

9. The Scottish Government's 2023 Medium Term Financial Strategy (MTFS) set out a three-pillar approach that the Government is taking to ensure that the public finances are on a sustainable trajectory. The Strategy, the Scottish Government explains, intends to deliver on the pillar, set out in the MTFS, "to maintain and develop our strategic approach to tax."

10. The Strategy outlines Scotland's fiscal and economic context, noting that, in recent years, "Scotland has faced significant economic and fiscal challenges which have also been seen across the UK and which have created lasting pressures on our public finances." It states that "the strategic, fiscal, and economic challenges that Scotland faces clearly go beyond a single budget cycle and require longer term policy responses."

11. The Strategy also states that the Scottish Government's priority is to support economic growth that "increases employment and earnings, lifts people out of poverty, and raises living standards. It notes that the Scottish Government is focused on interventions to support a more productive and competitive economy and that, as a result, it is taking action to grow Scotland's tax base by maximising potential Income Tax and other tax revenues.

12. The Scottish Government explains that the Strategy was informed by Scottish Government engagement with stakeholders, including businesses, think tanks, academics, civic society groups and tax professionals. It also undertook a pre-budget engagement event with stakeholders, the outcomes of which are

summarised in Scottish Budget 2025 to 2026: Public Attitudes to Tax, which was published alongside the Budget document on 4 December 2024.

Priorities

13. The Strategy outlines the Scottish Government's priorities for Scotland's existing tax system, setting out its intention not to introduce any new bands or increase the rates of Scottish Income Tax for the remainder of the Parliamentary session, explaining that "signalling a period of stability for our largest source of tax revenue will allow us to assess the impacts of recent policy changes, and support the conditions needed for a growing economy."

14. The Strategy also states that, for the remainder of the Parliamentary session, the Scottish Government will:

    - Maintain its commitment that over half of Scottish taxpayers will pay less Income Tax than they do in the rest of the UK.
    - Uprate the Starter and Basic rate bands by at least inflation.
    - Maintain the Scottish Higher, Advanced and Top rate thresholds at current levels in nominal terms in light of the UK Government context of a freeze to UK Higher rate thresholds to 2027-28. This will be reviewed annually at the Budget.

15. These commitments are also set out in more detail in the Scottish Budget 2025-26 document.

16. The Strategy notes that the Scottish Government is committed to working in partnership with Local Government "to ensure that local taxes are fair and sustainable and to explore the creation of more revenue generating powers for local authorities." It states that, to do this, the Scottish Government will:

    - "Begin the next phase of work of the Joint Working Group on Sources of Local Government Funding and Council Tax Reform (JWG) with a process of engagement in 2025 to build consensus on the way forward for Council Tax Reform." The outcome of this will be published by the end of this Parliamentary term.
    - Support open dialogue and engagement through forums including the sub-group on Non-Domestic Rates (NDR) established under the New Deal for Business.
    - Explore how NDR legislation might be consolidated and simplified.
    - Consider the outcome of the UK Government's consultation on 'Transforming Business Rates', including its impact on the block grant for Scotland, and noting the differences in the NDR tax base between Scotland and England.

17. Another priority outlined in the Strategy is the completion of the devolution of the remaining taxes the Scottish Government has committed to delivering. It highlights the delivery of the Scottish Aggregates Tax and the Air Departure Tax as “a key strategic priority for the Scottish Government” and notes the Scottish Government’s intention to introduce a Scottish Building Safety Levy Bill within the current Parliamentary term.

18. To achieve its priority of completing the devolution of the remaining taxes the Scottish Government has committed to delivering, the Strategy explains that the Scottish Government intends to:

    - Introduce the necessary secondary legislation for the Scottish Aggregates Tax to the Scottish Parliament and work with the UK Government to ensure that the new tax can be introduced on 1 April 2026.
    - Work with the UK Government to resolve subsidy control issues with the current Highlands and Islands exemption to enable the implementation of Air Departure Tax.

19. Regarding VAT assignment, the Strategy states that the Scottish Government “must protect the Scottish Budget from unnecessary levels of risk. This applies to the assignment of VAT, where concerns remain around the levels of uncertainty and volatility associated with the proposed assignment methodology, without appropriate fiscal or policy levers to help manage that risk.” The Strategy notes that, following the 2023 Fiscal Framework Review, and in light of these concerns, the Scottish and UK Government jointly agreed to consider the options for the future of VAT Assignment.

The economy and tax system

20. The Strategy states that the Scottish Government is “focused on creating the conditions for growth by bringing more people to Scotland, supporting our people into work, and raising wages for those working here. We also recognise the need for our tax environment to support private investment as well as to fund the public services which underpin a competitive economy.” The Scottish Government will “drive forward a renewed focus on expanding the tax base and tax revenues by progressing specific economic activities with the potential to grow the economy and get more people into work.” Actions the Scottish Government is taking to grow the economy are also outlined in the Strategy, including:

    - Measures to maximise the potential of Scotland’s workforce.
    - Provision of Employability Support.
    - Continuing to deliver Scotland’s Migration Service.

21. The Strategy explains that the Scottish Government intends to broaden its understanding on how the competitiveness and attractiveness of Scotland’s economy is impacted by the tax environment by:

- Assessing the links between tax policy and the economy in greater detail through a programme of evidence development, initially focusing on income tax.
- Engaging with businesses and organisations to contribute to the assessment of the cumulative impacts of Scottish, UK and local tax policies on the competitiveness of the economy.

Administration of Scotland's taxes

22. The Strategy notes that the Scottish Government's intention is to deliver a "fair, efficient and effective tax system in Scotland", which will be guided by the Framework for Tax principles. To achieve this, the Strategy states that the Scottish Government will:

    - Increase public understanding of tax in order to make it easier for Scottish taxpayers to understand and navigate the tax system.
    - Strengthen its approach to compliance in collaboration with HMRC and Revenue Scotland.
    - Work with tax administrators to ensure mechanisms for efficient tax collection, including increasing the digitalisation of the Scottish tax system.
    - Renew considerations concerning changes to the legislative processes for the fully devolved taxes.

Evidence and evaluation

23. The Strategy sets out the Scottish Government's commitment to enhancing its evidence base to "inform tax policymaking and support evaluation of tax changes." This, it states, will "improve transparency around tax decisions and their impacts; provide evidence on cumulative effects across the whole tax system; and support debate on the existing tax system and future reform."

24. The Strategy outlines that the Scottish Government will:

    - Publish its Areas of Research Interest (ARIs) on tax and set out the available exploratory funding to support the development of the ARIs. Figure 3 of the Strategy sets out the Scottish Government's key tax research areas for the next five years.
    - Develop a "systematic and regular programme of appraisal and evaluation across the Scottish tax system."

25. The Strategy notes that the Scottish Government recognises "the need to build evaluation across the devolved and local tax system, ensuring that significant policy decisions are transparently monitored and assessed as further data and evidence emerges." It further states that, to achieve this, the Scottish Government intends to:

- Formally evaluate the impact of changes to income tax in 2023-24 and 2024-25 once outturn data is available, and "closely monitor behavioural impacts on different groups of taxpayers, business, and the economy using a range of economic evidence and stakeholder engagement."
- Conduct its first five-year LBTT review by the end of the Parliamentary session in order to support an evaluation of key aspects of the tax legislation.

Future priorities

26. Regarding future priorities, the Strategy sets out that the Scottish Government will "explore the reforms needed to continue to deliver sustainable and growing tax revenues in the future." It states that, guided by the principles outlined in the Framework for Tax, the Scottish Government will begin a programme of work focused on:

    - Reserved tax powers (the Scottish Government will "consider the tax landscape in the round as we plan our next steps on tax devolution").
    - Balance of taxes across labour, income and wealth.
    - Tax as a lever to encourage positive behavioural change.

27. The Strategy states that the Scottish Government will set out a detailed programme of work on future priorities alongside the next MTFS in 2025, and that an update on progress against the Strategy will be published in early 2026.

Initial reactions to the Strategy

28. On 4 December 2024, the Institute for Fiscal Studies (IFS) published an initial reaction to the Scottish Budget 2025-26 and the Tax Strategy. The IFS welcomed the intention set out in the Strategy not to introduce any new tax bands for the remainder of the Parliamentary session. However, it noted that, while the Strategy's plan for income tax rates and thresholds for the remainder of the Parliamentary session provides helpful guidance to taxpayers, it will severely limit the Scottish Government's options should additional revenue need to be raised.

29. The IFS also highlighted concerns about the depth of the Strategy's content, stating that—

    > "The Tax Strategy provides little sense of direction on tax policy beyond income tax. On council tax and business rates, for example, there is merely an intention to continue dialogue and engagement. It does not inspire confidence that much-needed reform will actually happen. There is welcome recognition of the value of more systematic evaluation of the effects of tax policy, and plans to improve the administration of the tax system and

taxpayers' understanding of it. It remains to be seen what will be achieved in practice."

Registers of Scotland

By Email
Finance and Public Administration
FPA.committee@parliament.scot

Your Ref: N/A
Our Ref: OC-205-2024

Reply to: Edinburgh Office
Department: Senior Management
Contact: Jennifer Henderson
Telephone: 0131 357 8199
Email: rossecretariat@ros.gov.uk
Date: 17 December 2024

Dear Convener,

REGISTERS OF SCOTLAND – FPA COMMITTEE – ROUND TABLE – 07JANUARY 2025

Thank you for the opportunity to provide a written submission before the Committee session on 7th January to discuss public service reform as part of the FPA Committee's budget scrutiny.

Registers of Scotland is firmly committed to the principles of public service reform, and we have been actively working on this agenda since 2020 when the COVID-19 pandemic demanded a step change in how we deliver our services.

Our funding model

Our reform journey is unique in many ways. We are a public sector body that provides the public with a fee-based service for transacting with our statutory registers. We also offer a small range of commercial products and services. This status means that we can aim to be cost-neutral to the Scottish Government and allow its budget to be focused on the areas of highest need.

Income derived from the statutory services we deliver is linked directly to property market activity. We aim to achieve a broadly break-even position for our operating costs both in year and over the typical cycle of the housing market (c. 10 years). While we closely partner with Scottish Government Finance colleagues to ensure our investments align with national priorities and policy goals, this ability to plan over the longer term and operate on a cost recovery model gives us greater flexibility and autonomy than most other public bodies regarding our reform driven investment decisions.

However, despite our unique funding model, several factors in RoS' reform journey could be considered common enablers that may be helpful for further discussion. RoS already works with colleagues in other public bodies to share our experiences in these areas practically. We also take every opportunity to learn from others.

Going digital

The investment in the ongoing digitisation of our registers is the essential foundation upon which our reform journey rests.

Legacy systems

Many organisations in the public sector are working with legacy systems that do not allow for optimum efficiency. RoS has worked steadily to bring new systems online while concurrently phasing out the old systems. This has been done in areas across the business without losing service, from our mapping software to providing our IT network infrastructure. This transfer work is challenging and is anecdotally likened to changing the engine while the car is still running. Our trial and error in this area has allowed us to refine and apply this process to future business areas.

Attitude to risk

RoS' robust management process gives us a balanced attitude to organisational risk and reward. This enables us to undertake significant changes, such as retiring our legacy systems, in a controlled fashion.

Our key risk register captures and monitors strategic risks, with operational risk registers in each directorate. The risk registers articulate the control measures to ensure risk is managed within acceptable tolerances of RoS' risk appetite. Our key risk register operates as a 'live' register and is reviewed in alignment with the annual review of strategic objectives.

Automation

RoS has also transformed how customers submit cases by introducing our digital submission service, which replaced an almost entirely paper-based process. Our development and successful implementation of the online 'Register Land and Property' (RLP) functionality has paved the way for automation of the most common application types. This frees up colleagues to focus on more complex cases, driving down a backlog of existing casework and ensuring future resilience against a fluctuating housing market and the cost of serving that demand.

Capacity and expertise

Our digital transformation has been predicated on building the organisation's capacity and expertise. We create our digital registration products in-house and use the latest development techniques and agile methodologies. Having our developers and product managers working closely with our registration colleagues gives them a greater understanding of our organisational needs and the ability to work iteratively to refine our systems and make them fit for purpose.

Beyond the positive impact that digital has on our customers, it also has wider impacts in other areas of interest to the public service reform agenda.

Staffing levels and productivity

Our investment in digital automation will help contribute to our target of a 10% reduction in people required to run our current services. We have also invested time and resources in people and performance management skills. Our culture is focused on creating a supportive and positive environment where people can bring their full selves to work, skills are recognised, and people are given opportunities to grow and develop. The support we offer for wellbeing is not only the right thing to do for our colleagues, but it also enhances our productivity. Our internal communications have also clarified our expectations of colleagues and how everyone contributes to the organisation's goals. In conjunction with our progress on IT systems and automation, effective performance management has helped us increase productivity in the last financial year without increasing our headcount. As an additional measure, we also worked closely with the union to agree that the pay deal (2023-24 and 2024-25) was predicated upon demonstrated organisational reform with a clear focus on delivering improved productivity.

Estates

Investment in our digital IT network infrastructure has allowed us to safely and securely open up our office spaces. We now share our buildings with several tenants and are working towards maximising our estate assets to share costs and champion smarter working environments. This supports our colleagues across the public sector and delivers sound financial management of public funds.

Procurement

Efficient procurement also contributes to fulfilling our digital aspirations. RoS recognises the efficiencies and cost savings of leveraging effective procurement at scale. The money saved has been an enabler as it has allowed us to focus the budget where it is most needed for further reforms. For example, our access to the One Government Value Agreement (OGVA) for cloud services realised a 22.5-25% discount against the list price.

Using the Scottish Government's 'Procurement Benefits Reporting Guidance' methodology, RoS procurement achieved £965,000 of cash savings for 2023/24, an 8.5% reduction in annual expenditure. This has been achieved by identifying available frameworks and further competitions.

RoS shares our knowledge and expertise as a member of the Supplier Development Programme which assists businesses to become tender-ready. We are also committed to prompt payment as a priority to support our suppliers and the broader economy. Our on-time payment performance is 96% of payments made in fewer than 10 days and 99% within 30 days.

Revenue Generation

As the Keeper of the Registers of Scotland, I have a range of powers to charge for commercial products and services. Going digital, with a focus on data, is also underlying our work in this area as we plan to investigate further commercial opportunities through:

- Realising value from opportunities of our skills, capabilities and data to enhance existing and create new commercial services
- Strategic partnerships with public, private and third sector to further develop business and create joint opportunities
- 'Geovation Scotland' to drive economic development and knowledge sharing by working closely with startups in location, land and property technology, and engaging widely in the entrepreneurial ecosystem

Our framework does not allow for commercial services to subsidise our statutory functions. However, it gives the organisation flexibility as we plan for a sustainable future. In RoS' view one of the additional ways in which we can contribute to the PSR agenda is, not only being as efficient as possible, but also becoming as financially resilient as possible. Having a broader range of income streams can only contribute to this goal. It will mean that we are better insulated against fluctuations in the housing market and less likely to need to draw upon any wider Scottish Government finances.

Barriers

Resourcing – skills and overall numbers

The organisation needs the right staff in the right place at the right time to operate efficiently. As set out in our five-year corporate plan (2022 – 2027) we anticipate that we will be able to meet our staff reduction target through natural attrition e.g. retirement. However, if there is a push across the wider public sector for further reductions then this desire may clash with the Scottish Government's general policy of no compulsory redundancies.

We also need the right skills and talent to continue pushing our digital reform agenda. Recruitment in IT and digital is a challenge across the public sector, and we operate within a highly competitive, highly paid jobs market. This is why we are developing our employee value proposition, positioning us as an employer of choice within the public sector, together with progressive talent acquisition and reward strategies.

Shared digital services and components across the public sector

RoS is open to exploring options for greater collaboration around public sector digital services. Both in terms of shared systems to underpin corporate services like HR or finance, as well as shared common components. For example, all public sector organisations using the same centrally provided ID verification system for citizens to authenticate when using digital public services.

Our organisation already actively utilises shared digital components such as GOV.UK Notify for streamlined and reliable citizen notifications and GOV.UK Pay for secure payment processing. These components have proven invaluable in reducing development effort, ensuring consistency, and delivering cost-effective solutions for critical services.

We have also contributed to the development of the Scottish Government’s shared cloud platform. However, due to our current advanced and highly efficient in-house cloud provision, we have not yet identified a clear value proposition for adopting this shared platform. Nevertheless, we remain committed to exploring opportunities for alignment where shared infrastructure offers demonstrable benefits.

In the area of digital identity, we have evaluated the ScotAccount service but found its current citizen-only scope unsuitable for services requiring legal professional identity verification. While this limits immediate applicability, we are considering its use in the upcoming citizen-focused Register of Moveable Transactions Service.

This activity demonstrates that adopting shared components presents several challenges. Firstly, their design must cater to a broad range of user personas, often requiring compromises that may not meet the specific needs of every organisation. Integration into existing systems can also demand significant resource investment, particularly where legacy systems or bespoke architectures are in place.

Moreover, balancing agility and control with the constraints of standardised platforms can be complex, especially where pace of change, unique service requirements or enhanced security and compliance needs are involved.

My colleague Chris Kerr looks forward to attending the Committee on 7 January to discuss these and other issues further.

Yours sincerely

JENNIFER HENDERSON
Keeper of the Registers of Scotland

Scottish Funding Council
Comhairle Maoineachaidh na h-Alba

Scottish Parliament Finance and Public Administration Committee: Public Service Reform

19 December 2024

About the Scottish Funding Council

1. The Scottish Funding Council (SFC) is Scotland's tertiary education and research authority. We are a non-departmental public body (NDPB) established by the Further and Higher Education (Scotland) Act 2005.

2. Our purpose is to sustain a world-leading system of tertiary education, research and innovation that enables students to flourish; changes lives for the better; and supports social, economic and environmental wellbeing and prosperity.

3. We invest around £2bn in tertiary education, research and innovation through Scotland's 24 colleges and 19 universities, which provides learning, reskilling and upskilling opportunities to Scotland's learners, with most recent data showing the sectors delivered opportunities for over 541,000 learners in 2022-23.

4. We are also the statistical authority for colleges, and we work closely with the UK-wide Higher Education Statistical Authority (HESA), to provide data and statistics for government, decision-makers, and the wider public.

5. We publish a significant amount of data and information, which enables evidence-informed decision making for a range of stakeholders, including Scottish Government and the institutions we fund.

SFC Organisational Operations

6. We are a small and efficient organisation, responsible for the effective distribution of around £2bn of public money, annually.

7. **Running costs**: We deliver on our distinct statutory remit efficiently, with a staff base of 141.5 FTE and lean operating costs, with our running costs for AY 2023-24 making up 0.7% of our spend.

8. **Organisational Culture**: We have a positive working culture demonstrated by our people surveys and Investor in People results, for which we recently retained our silver accreditation award. Our staff are engaged and innovative, with over 93% of staff committed to helping SFC achieve our goals, and 87% of staff looking for improvement ideas from their colleagues.

9. **Transformation**: SFC has been on a journey of transformation for several years: this is an ambitious programme of change to ensure that we have the

right people, systems, and processes in place to enable SFC to deliver for learners, employers, and communities, both now and in the future.

i. **People:** In line with our strategic and workforce plans, our staff base has seen modest increases: we have made strategic investment in digital, data and analytics, and financial analysis to deliver intelligent insights to our partners and respond to the changing needs of the sectors we fund. We have prioritised growing skills and capability through training, better systems, and processes.
ii. **Digital:** We have invested in our systems, digital, and data capabilities through strategic and targeted investment, which has transformed our data capabilities and enabled more efficient ways of working.
iii. **Finance**: We participate in the Scottish Government procurement cluster and best practice procurement groups; we have also increased automation of routine processes resulting in more efficient ways of working.

10. **Partnership Working:** We work extensively in partnership with the college and university sectors, other funders, skills and enterprise agencies, and qualification and data authorities to secure mutually shared goals and outcomes, joined up impact and greater public value. We also share a staff member with NHS Education for Scotland (NES), responsible for delivering joint activities in response to key education and training needs of the NHS and the social care sector.

11. **Shared Services:** We participate in shared services, for example, we share internal audit services and office space with Scottish Enterprise. We also adopt learning and development packages from other government and partner organisations, such as Civil Service Learning, to secure efficient approaches to support our staff.

12. **Delivering efficiencies**: To secure efficiencies across the sectors we fund, we provide funding for the delivery of procurement services and digital infrastructure at a national level through Advanced Procurement for Universities and College (APUC) and Jisc, respectively. The sectors save around £27m annually through Jisc, and in 2021-22, the sectors saved £30.4m in 2021-22 through collaborative agreements with APUC.

Reform in Tertiary Education and Research

13. Over the past decade we have engaged in a series of reforms in the sectors we fund, such as launching Innovation Centres and mainstreaming funding for Foundation and Graduate Apprenticeship delivery within our core tertiary education funding.

14. We published our Review of Coherent Provision and Tertiary Education in 2021. The recommendations from our Review set out the path for strategic and long-term system change. Significant work is underway to deliver improvement and enhancement as part of our Review and beyond. Recent reform and change that we have delivered over the last few years includes:

i. **Revised approach to assurance and accountability:** We launched our Outcomes Framework and Assurance Model in 2024. This new approach will deliver better public value by enabling improved accountability mechanisms while reducing administrative burden for colleges and universities.
ii. **New approach to quality assurance:** We introduced the Tertiary Quality Enhancement Framework (TQEF) for the college and university sectors in 2024. Our shared vision is for a more coherent and streamlined tertiary education system for students that delivers the best learning experience possible.
iii. **Changes to our College Funding Distribution Model:** In AY 2023-24 we introduced significant changes to our college funding distribution model, which provide greater planning certainty for colleges and help to protect them from volatility. For example, when colleges under-deliver against their credit threshold, we now only recover 80% of the value in recognition of the fixed costs colleges incur.
iv. **Tackling Persistent Inequalities:** In partnership with the Equalities and Human Rights Commission (EHRC), we identified the most persistent inequalities in the tertiary system. In 2023 we worked with institutions to set out National Equality Outcomes (NEOs) against which they deliver, as part of their Public Sector Equality Duty, to tackle these persistent inequalities.
v. **College Infrastructure Strategy:** Our College Infrastructure Strategy sets out our ambition for a college estate that delivers a high quality, technologically advanced and sustainable learning environment. The next step of this strategy is the publication of the Infrastructure Investment Plan (IIP) in early 2025. The IIP will identify future infrastructure investment, including investment for net zero, digital, and training equipment, needed for a sustainable college estate that delivers for students, staff, and communities.
vi. **Regional Tertiary Pathfinders:** Working with colleges and universities in the North-East and South of Scotland, our regional tertiary education pathfinders explored how course provision and skills planning works in practice. We plan to publish our findings in Spring 2025.

15. The Scottish Government recently consulted on proposals for Post-school Education and Skills Reform. This consultation set out options to change what public bodies do in the post-school system in order to simplify responsibilities for apprenticeships and student support. We are engaging closely with Scottish Government as this programme of reform develops, and we stand ready to work in partnership with Scottish Government and other bodies for the successful delivery of reform.

Further information

Lynne Raeside, Deputy Director of Policy and External Affairs, Scottish Funding Council

FPAC PSR Submission: December 2024

Purpose of this Submission

The purpose of this submission is to provide a brief overview to the Finance and Public Administration Committee into key issues relating to Public Service Reform (PSR) from a Transport Scotland perspective. It will accompany the evidence to be provided by our Chief Executive, Alison Irvine, at the session to take place on 7 January 2025.

Transport Portfolio: Purpose and Vision

The transport system is essential to the economy of Scotland, enabling people to access goods and services, job and education opportunities, their healthcare and generally live fulfilling lives. It is key to Scottish Ministers' aspirations for a flourishing, sustainable net-zero economy. Scotland's people and businesses all interact with transport and, uniquely for a public service, make personal decisions regarding travel every day.

The transport portfolio delivers essential rail, ferry and air services, concessionary fares for older, disabled and young people, funding to make it easier for people to walk, wheel and cycle, and support for bus services.

This covers funding the safe operation and maintenance of the strategic road network, as well as the design and development of trunk road improvements and road safety initiatives. It also includes investing in reducing emissions through decarbonising transport and adapting our network to the impact of climate change.

Our priorities and Vision are articulated in the National Transport Strategy. The Vision is to have an inclusive, safe and accessible transport system, helping to deliver a healthier, fairer and more prosperous Scotland for communities, businesses and visitors. This Strategy is supported by the Strategic Transport Projects Review, which informs the Scottish Government's transport investment programme 2022-2042, aligning with other national plans, such as the Infrastructure Investment Plan, National Planning Framework (NPF4), the Climate Change Plan and the National Strategy for Economic Transformation.

Transport Landscape

Transport Scotland is an a somewhat unique position. As a public body with delivery responsibilities the Agency has to be organised to deliver those responsibilities as effectively as possible. This means considering the nature and shape of the organisation, ensuring it is both adaptable and resilient and engaging with the public service reform agenda alongside all other public bodies.

Transport Scotland is also a sponsor body with responsibility for overseeing eight transport public bodies and providing assurance to Ministers that those bodies are fit for purpose and operating effectively. Some of those, such as ScotRail, CalMac and HIAL are directly involved in delivering vital public services. Others such as Scottish Canals are key to managing national infrastructure which supports our active travel ambitions and tourism economy.

These public bodies range in scale. For example, Scottish Rail Holdings has a budget of more than £1 billion providing Scotland's rail services whilst the Office of the Scottish Road Works Commissioner has Grant-in-Aid of c. £500,000 in 2024-25. Regardless of size and scale they all have a key role to play in delivering the transport network. Transport Scotland's own budget is in the region of £3.7 billion.

In terms of Public Service Reform therefore our responsibilities are dual: to work with public bodies to drive the reform agenda and to continually improve the Agency's service delivery and ensure effective value for money. This means taking forward the PSR agenda with public bodies, ensuring they are embedding the principles and actions necessary and working with them to identify efficiencies.

This means working closely with public bodies to give assurance to Ministers that they are effectively run, operating efficiently and delivering value for the public purse. And also to encourage them to be innovative and operate commercially (where appropriate and with suitable safeguards) to generate revenue which can be invested in service delivery.

Transport and public service reform

In considering how best to approach PSR for transport related issues the Agency's focus often differs from other public services who are seeking to reduce demand. In public transport, the goal is to increase demand, to encourage more people to use it and to develop a fiscally sustainable path which improves value for money for the tax payer. Transport operates on a commercial basis, with Scottish Ministers providing a subsidy where required. The priority for reform is therefore to build a financially sustainable and accessible transport system that the people of Scotland can rely on by improving its resilience and effectiveness. This means ensuring that changes we bring in don't undermine efforts to promote sustainable transport choices. Increasing public transport services and accessibility supports Ministers net-zero ambitions as well as reducing inequalities and supporting the economy of Scotland.

There is also read-across to broader PSR ambitions. Supporting active travel encourages healthy activities such as walking, wheeling and cycling. This can improve overall health outcomes and reduce demand on the NHS, helping ensure those services are responsive and cost effective.

The transport portfolio has been and continues to evolve a series of significant public service reform programmes. This includes:

- Bringing Scotrail and the Caledonian Sleeper into public ownership;
- Changing the funding and delivery of ferry services on the CHFS network and investing in new vessels;
- Developing systems to support smart and integrated ticketing; and
- Shifting the model of funding for low carbon infrastructure.

These activities are just some of the ways Transport Scotland is tackling the inter-related strategic challenges of bringing financial sustainability, growing and maintaining our assets and reducing carbon emissions.

They are all designed to deliver more reliable services that people and business will want to use, Increasing demand for public transport services drives patronage, which increases revenue and reduces subsidy. Investing in our assets helps make the transport system more reliable and can reduce maintenance costs. And where possible, working with private sector investment can help ensure that public money goes only where it is really needed.

Transport Scotland Internal reform

Transport Scotland has been undertaking an Organisational Transformation Programme examining how the business fits with Scottish Government's priorities and the future vision, seeking opportunities for efficiencies and improvements, and prioritising resources to ensure that we are a resilient and collaborative organisation.
As part of this the Agency will be moving to a shared estate model with several NHS bodies, ensuring a more efficient use of office space as we adapt to hybrid working. Transport Scotland also routinely uses collaborative procurement approaches and are working to drive efficiencies in our own budget and those of sponsored public bodies.

Key to the delivery of our objectives is monitoring and assessment. In line with best practice, Transport Scotland undertakes a wide programme of research and evaluation of transport policies. It routinely evaluates the delivery of policy programmes and specific transport initiatives. This includes evaluations after one, three and five years of major transport initiatives, as well as the evaluation of changes to policy delivery. Any reforms that impact on the quality and delivery of services delivered by Transport Scotland are monitored through individual evaluation and also by reporting on delivery of outcomes of our National Transport Strategy. Transport Scotland also has a statutory commitment to report to the Scottish Parliament on the progress of its National Transport Strategy.

Conclusion

Whilst a significant amount of work has already been undertaken in pursuing the PSR agenda both within Transport Scotland and within the wider Transport portfolio, every opportunity will be taken to drive this agenda further. This will be accomplished through continued and constructive engagement with delivery bodies to increase revenue and drive efficiencies where possible. In so doing, we will continue to adhere to the Scottish Government's PSR Framework in order to develop work that will meet the vision for public services.

As far as our PSR efforts within Transport Scotland, these are focused on completing the Organisation Design process to match current resources with priorities and moving into new shared premises with two other public sector bodies.

NHS National Services Scotland (NSS)

NSS is a public body working across NHSScotland providing national support services and expert advice to Scotland's health and care sector.

We provide and commission a wide range of clinical shared services, such as blood transfusion and health screening, and non-clinical shared services, for example procurement and digital, along with other critical support functions that ensure the effective operation of the NHS in Scotland.

Accountable to Scottish Ministers, we play an essential role in maximising health impacts and cost savings across Scotland's health and social care system. We achieve this by collaborating with Scottish Government, health boards, local authorities, and other partners to ensure our services, solutions and programmes of work are aligned to, coordinated with, and enable regional and local activities.

You can learn more about our organisation and our recent performance here.

Current services

Since its inception, NSS has provided a wide range of national services that ensure health boards can deliver their services with confidence.

Digital and security
We provide end-to-end business solutions, technology and data for clinical settings, and digital security options, including cyber security and information governance.

Primary care support
We support general practitioners, dentists, opticians, community pharmacies and dispensing contractors to deliver primary care across Scotland.

Specialist healthcare commissioning
We commission a range of specialist and rare condition treatments and screening programmes to ensure equitable and affordable access to these services.

Legal
We provide specialist legal advice and assistance in every area of law relevant to the public sector and counsel on wider policy issues.

Programme management services
We act as a national delivery provider and work with our partners to offer total solutions in portfolio, programme, project management and transformation services.

National procurement
We provide a single procurement service and expert logistics services, including distribution, supply chain and warehouse operations, fleet management and ward product management.

Fraud prevention
We work in partnership with NHSScotland and across the Scottish public sector to provide a comprehensive service to reduce the risk of fraud and corruption.

Blood, tissues, and cells
We provide blood, tissues and cells, ensuring they're available, 24 hours a day, every day of the year throughout Scotland.

Corporate services
We provide corporate shared services to other health boards. Our offer brings together HR, Digital and Security, Facilities, Procurement, Finance and Payroll.

NHS Scotland Assure
We provide expertise in infection, prevention and control, construction, capital planning, facilities and catering, decontamination, and environmental sustainability.

Antimicrobial Resistance and Healthcare Associated Infection (ARHAI) Scotland
We coordinate national surveillance, reporting of healthcare associated infections and monitor antimicrobial resistance and prescribing.

Health Facilities
We provides advice on capital projects, engineering, equipment provision and facilities management in support of NHSScotland's built environment.

Details of all NSS services can be found here

Opportunities and barriers

The underlying principles for shared services in NHSScotland are still sound, notably the need to work across boundaries and exploit economies of scale. Similarly, as an existing shared services provider, there is more that NSS can achieve for health and care, for example:

- A national payroll service.
- A single occupational health service.
- Extending the scope of our corporate shared services offering to enable the implementation and national adoption of business systems.
- Establishing a shared services programme to scope other opportunities.

There have been several well documented shared services programmes that have been undertaken by NHSScotland. Successful programmes, such as the Scottish Radiology Transformation Programme, have enabled us to understand the factors that are critical to successful transformation.

- "Burning platform" – a compelling case for change.
- Clear mandate from the top.

- Accountable governance.
- A vision owned by the service.
- Strong leadership at all levels.
- Service design in partnership with the service.
- Dedicated, multi-disciplinary team.
- Prioritised above other activities.
- Robust operational data.

Where these success factors are not in place, barriers will be experienced that limit the scale and pace of change. These are the main barriers we have identified from our experience of delivering shared services.

Technology
The current technology infrastructure varies by health board, creating a complex environment for transitioning to more advanced systems, while ensuring data security and compliance with regulatory requirements, and business continuity.

National, regional and local variation
Some national solutions may require local or regional delivery. This can lead to a dilution of effort and resources, confusion about responsibilities, multiple versions of a single system and variations to process.

Decision making
Typically NHSScotland seeks to achieve a consensus decision for national solutions. This requires an extended approach to collaboration and engagement and can result in compromise, delay, and solutions that don’t fully achieve their desired outcomes.

Legal entity
NHSScotland’s legal structure means there is a complex set of legal requirements, such as employment law, data protection regulations, and other legal frameworks, that need to be met. This can also limit where staff work and their authority.

Staff concerns
Transitioning to new service models can create uncertainty and anxiety among employees. Ensuring employees feel supported and valued during the transition can help maintain morale and productivity. Partnership working with unions is essential.

Finance and Public Administration Committee – Budget Scrutiny 2025 – 26

7 January 2025

Food Standards Scotland

Food Standards Scotland (FSS) is the public sector food body for Scotland with a mandate to deliver a safe, healthy and sustainable food environment that benefits and protects the health and wellbeing of everyone in Scotland.

The primary role of FSS is to work with Government, local authorities, regulators, industry, consumer bodies, science and research institutes to make sure that food is safe to eat, ensuring consumers know what they are eating and improving diet and nutrition.

FSS is an independent public body established by the Food (Scotland) Act 2015 as a non-ministerial office, part of the Scottish Administration, alongside, but separate and independent from, the Scottish Government, and is accountable to the Scottish Parliament, currently reporting to the Health, Social Care and Sport Committee . Funding is primarily received from the Scottish Government, but FSS also generates some income by charging fees to recover costs for regulatory functions. The model allows for full cost recovery though some business operators benefit from a subsidised rate. FSS is governed by an independent non-executive board comprising a chair and seven board members.

On 1 April 2015 FSS took on the functions that had previously been carried out in Scotland by the Food Standards Agency though Scottish Ministers have required us to manage additional responsibilities for them since that time. In April 2015 our budget was £15.7m and apart from a £7m uplift required for Brexit (which is still £3m short of what we said was required), in the ten years since our start, **FSS has had no budgetary increase at all.** In real terms our budget has reduced by 25.5% since 2015.[1]

Key issues to highlight since last evidence session

This current year has proved to be another extremely challenging year for FSS which (despite the reprioritisation exercise in August 2022 the challenges of a fixed budget and increasing costs and workload) has led to an extremely precarious financial position for this current year and without doubt for the years ahead.

In 2023 FSS developed a 2 year financial management plan (FMP) to coincide with the final two years of the FSS 5 year strategy. This work identified that despite the staff reductions (circa 10% of FTE compliment) and savings made in programme, capital and other budget lines FSS was facing a budget pressure in 2024/25 of £1 million.

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[1] https://www.bankofengland.co.uk/monetary-policy/inflation/inflation-calculator

Financial planning for 25/26 began early this year with a recognition of the need to absorb the latest pay awards, 35 hour working week and the impact of inflation and increase costs within SG/FSS shared service provision. This has led to a forecasted FSS budgeted overspend of £2.5 million for the financial year 25/26 which was notified early to SG and well in advance of budget deliberations and allocations

Despite this, on 5th December this year FSS received notification of it's budget allocation for the coming year. It is clear that the already difficult financial situation has worsened considerably as the FSS budget allocation has remained flat at £22m which is yet another real terms cuts. Even the Barnett consequentials following the FSA budget increase has not been passed on.

The consequences

In public health terms the risks to our food safety system can be seen in recent E-coli and listeria outbreaks (which have caused serious illness and deaths), and a significant public health risk with counterfeit vodka for sale in the central belt. Alongside these risks, we are dealing with an increasingly diverse food system, a food industry dominated by businesses with high turnover and complex technical needs and a Local Authority capacity that is deteriorating each year.

Alongside these risks we have also taken on significant additional responsibilities since EU Exit to support the food safety risk assessments which underpin the standards of our domestic food production and export markets and market approvals for regulated products including food and animal feed additives. In order to ensure the interests of consumers and food businesses in Scotland are taken into account and that Scottish ministers, the Scottish Parliament, industry and consumers(are adequately advised on these matters it is essential that our experts play an active role in these functions. Despite an increasing workload due to emerging developments in relation to new technologies and policy drivers, resource limitations over the past few years have required us to deliver this role through a team of 6 scientists compared to the team of 90-100 scientists in the Food Standards Agency that undertake this work on behalf of other UK ministers.

Notwithstanding, the risks above, the need to make even greater efficiencies from the outset of this financial year was actioned immediately. FSS introduced a new (slimline) management structure, and the greater level of responsibility placed on our heads of department has energised this process. This was evidenced in the intense work undertaken by our Senior Management Team to set the budget for this year. The Board also acknowledged the processes that were in place to achieve break even at the end of the financial year including the vacancy review group, and the severe reductions in discretionary spend in areas such as research and communications. This will impede our work as a research and evidence based organisation, but it remains a requirement for FSS to work within the flat lined budget allocation. At this stage, however, we are doubtful of being able to meet all of our statutory obligations. We have raised our concerns with SG officials about the serious implications for FSS and further meetings are now planned in early 2025 to discuss the FSS budget position for 2025/26.

This sustained focus on ways to reduce our costs and commitments was to enable FSS to remain within budget in 2024/25 and not to achieve an overspend. The efficiencies required to achieve breakeven following the pay award and introduction of the 35 hour working week are already a significant challenge when 80% of our budget is staff costs. The introduction of a 35 hour working week equates to 16 FTE and alongside a 25 FTE reduction this represents a 8% reduction in staffing this year.

Having stated all that we have done to reduce expenditure, FSS have also looked for and highlighted opportunities for further efficiencies to tackle the significant challenges that we face in food law enforcement. It has been known for some time that there is a requirement to modernise and that this will require investment in the future.

The FSS SAFER programme, which will enable full delivery of food safety and food standards in a more efficient and effective manner, helping not only our own situation, but all Local Authorities in Scotland and will help food business organisations in Scotland to maintain their reputation for safe food at home and abroad. This has received support from Scottish Government and partners for the next 3 financial years although final confirmation of how it will be funded is still outstanding. Assuming the programme is funded, it is anticipated that this transformational change and improvement will also generate significant income to the public purse once implemented.

Public Service Reform remains a key priority for FSS and we remain an active participant in all discussions exploring opportunities for co-location and sharing of corporate functions and resources across organisational boundaries. By way of example since the last evidence session a number of staff from other public sector organisations now share our accommodation in Aberdeen with negotiations ongoing to increase this tenfold in the coming 18 months. FSS, to date, has not charged Scottish Government or partners for this co-location opportunity.

Recognising Data and Digital transformation as a key priority to enable service improvement and opportunities FSS established a data and digital steering board regularly attended by SG and Marine Directorate digital experts. This sharing of knowledge, skills and expertise has seen the development of a Business case which if supported could realise many hundreds of thousands of savings in the coming 3 years period again whilst modernising IT systems ensuring as secure as possible minimising the likelihood of cyber attack.

However, it is worth noting that there has been no funding to support investment in transformation to help improve efficiency. For 2025/26 we asked for £450k to support digital transformation and received zero. There is therefore no efficiency dividend from FSS, we are simply making cuts to meet our allocation. And the consequence of that is an ever-widening gap between our capability and our capacity. The £30m investment announced in the budget may help, but it assumes FSS' priorities are deemed higher than other applications and therefore offers no guarantees of funding.

Conclusion

FSS is a high performing organisation and out last year's survey had us at 8th highest across the GB civil service at 72%. We have maintained that level of staff engagement despite the challenges we have faced. But the gap between capability and capacity is widening each year and staff morale and motivation is deteriorating too. Public bodies should not get extra funding just because they ask for it, but when we have effectively not had any increase since we came into existence, we are now at a a point where there are no other options other than radical cuts entirely to non statutory functions.

SOUTH OF SCOTLAND ENTERPRISE (SOSE)

WRITTEN SUBMISSION TO THE FINANCE AND PUBLIC ADMINISTRATION COMMITTEE: SCRUTINY OF THE SCOTTISH BUDGET 2025-2026 PUBLIC SERVICE PROGRAMME (DECEMBER 2024)

Finance and Public Administration Committee's Scrutiny of the Scottish Budget: Public Service Reform

South of Scotland Enterprise welcomes the opportunity to provide a written submission to the Committee before its session on 7 January that will explore public service reform as part of the Committee's budget scrutiny. We look forward to sharing more during that roundtable session.

South of Scotland Enterprise, Scotland's newest economic development agency, was established by the South of Scotland Enterprise Act 2019 and came into being on 1 April 2020 to meet the need for investment and growth in the South of Scotland. Covering Dumfries and Galloway and the Scottish Borders, we support people, communities and enterprises in our region to thrive grow and fulfil their potential. This new regional focus provides a simple point of access and expertise for those wanting to invest, locate and live here with our focus on people, planet and place, we drive activity that will deliver the rural powerhouse we believe the region can be.

We are committed to being an organisation that is as lean and focused as is possible, supporting the public service reform agenda. Five years in, we continue to challenge ourselves to ensure that our structures and ways of working deliver as effectively as possible for the region and maximise the impact we have with existing resources.

Our strategic approach is set out in our Five-Year Plan, published in April 2023. We group our activity around six key themes – our **Six As** –that will make a real and lasting difference for the region:

- Accelerating Net Zero and nature - positive solutions.
- Advocating for Fair Work and equality.
- Advancing innovation and improving productivity.
- Attracting ambitious investment.
- Awakening entrepreneurial talent.
- Activating and empowering enterprising communities.

As a new organisation, we have developed with the principles of public service reform central to our thinking – challenging ourselves around staffing levels, working collaboratively and ensuring we make best use of new technologies to streamline processes to ensure that we maximise the impact of our resources to deliver economic growth.

WORKFORCE CHALLENGES

- We maintained a tight control of headcount – rather than creating an organisation of 175 that was originally intended we have capped our headcount at 145 and frozen all but essential recruitment.
- We recognise the value of our staff and the expertise that they bring to those we work with – we are not simply an organisation that provides financial and grant support, important though that is, our staff are a key asset and the insight they bring is valued by those we work with.
- We have also been working to extrapolate and capture the value our team members deliver as experts and 'consultants' working with companies and communities across the region, in a non-traditional delivery model that considers our team members as a critical delivery

resource. Current estimates are that our team are delivering in the region of over £4m of added value services.
- We have a number of jointly funded roles – with other public bodies such as Zero Waste Scotland and with our two local authorities.
- We ensure that our structure focuses on our key priorities with all staff in the organisation delivering for the region, and we revisit this as and when needed.
- We are beginning a transition phase in 2025 to ensure we evolve to match the changing needs of our rural and national economies.

COLLABORATIVE WORKING

- Collaborative strategy development and alignment via the Joint Working Group, encompassing SG, SE, SOSE, HIE, SDS, SFC and VS.
- Collaborative product and service development, promotion and delivery via Civtech and the Business Support Partnership.
- South of Scotland Regional Economic Partnership.
- Convention of the South of Scotland.
- Strategic Housing Forum.
- South of Scotland Transport Forum.
- Scotland's Agritourism Strategy Board.
- SOSE has strategic partnerships and MoU's with: –
    - Civtech
    - SRUC
    - Zero Waste Scotland
    - Censis
    - GSA

INNOVATION

- Innovative ways of working – hybrid working and pilot for SG 4DWW – ways of increasing our workforce productivity.
- Entrepreneurship & Innovation (SOSE has secured the pilot Pathways project and is driving the Space Strategy for the South of Scotland).
- Net Zero and the Net Zero Investment Guide (currently more than 30 live inward investment opportunities).
- Natural Capital Investment and Innovation (South of Scotland has secured the Natural Capital Innovation Zone for Scotland status).
- Collaborative leadership to unlock barriers to economic development and growth (launch of the SoS Housing Action Plan, launch of the Biggar Economic study into community wealth building and benefit etc).
- Supporting our wide and diverse Enterprising Business and Communities Organisations by creating the Community Ambition Fund and a new Enterprise focused model of community support.
- Working with SRUC on Dairy Nexus, creation of a co- innovation hub with modern knowledge exchange facilities, co-working spaces and a biorefinery for R&D, seeking to create new value streams for dairy farming
- Supporting innovative tech solutions by providing businesses in the South with access to our Createch fund and partnering with Tech Scaler.
- Embedding and enhancing circular approaches that can grow and strengthen regional supply chains, working closely with organisations like Zero Waste Scotland to do so.
- SOSE were the first agency to create a formal partnership and MoU with Civtech – as the Scottish Government's flagship innovation programme - to provide innovators, entrepreneurs, start-ups or established businesses a procurement route to develop products centred around solving real life challenges.

- SOSE were also the first agency to set up regular roundtables, and partnerships with all of the Innovation Centres, with a specific focus on collaborative project opportunities for the South of Scotland.
- SOSE are working in partnership with the Codebase Tech (Start-Up) Scaler programme, with both Local Authorities and with academic partners including Napier University, Heriot Watt University, the University of Glasgow and SRUC. Areas of focus range from the Mountain Bike Innovation Centre to regenerative agriculture, hydrogen developments and carbon capture.

SHARED SERVICES/SHARED ESTATE

- Small footprint – but ensure that we cover region.
- Shared Information Technology and Information Systems, across SDS, SE, HIE and SOSE.
- Use of collaborative procurement arrangements (Scot Gov, Scotland Excel, CCS).
- Shared Internal Audit function across SDS, SE, SOSE, SFC and Clyde Gateway.
- Collaborative strategy development and alignment via the Joint Working Group, encompassing SG, SE, SOSE, HIE, SDS, SFC and VS.
- Collaborative product and service development, promotion and delivery via the Business Support Partnership.

USE OF TECHNOLOGY

- Ongoing evolution of digital and social media channels (frost NDPB on Blue Sky).
- Developed a SOSE app.
- Collaborative approach to developing the 'Invest in the South of Scotland' website.
- MySOSE.
- Trialling AI.
- Rolled out collaborative working tools.
- Streamlining internal systems and processes.
- Active partner in the EIS Shared Service.
- Streamlined workflow and improved productivity through the adoption of business tools such as Power BI and CoPilot amongst others.
- Delivered savings in 24/25 relating to a reduction in operational running costs in IT/Finance/HR transactional and system services in which are delivered through collaborative arrangements with other NDPBs.

MONITORING AND EVALUATION

- SOSE developed our innovative Performance Management Framework to assess and monitor the effectiveness of our delivery and the impact our work has on the South of Scotland.
- 2023/24 was the key year establishing the baseline for data.
- 2024/25 began the process to incorporate Supporting Measures and design measures to quantify less tangible areas of added value.

Measures of our organisational performance and direct impact include: -

- Primary Measures align to our six areas of strategic focus – Our six As.
- Supporting Measures delving deeper into our six A's and/or represent prioritised areas of performance and impact.
- Tracking Wider Impacts; regional-level economic, social, and environmental performance indicators.
- Evaluation capability, to enable in-depth evaluations of specific areas of work.
- Management Information and monitoring processes, to track projects are delivering as planned and ensure we are operating effectively.

Public Estate

- SOSE deliberately has a compact property portfolio, we cover both the Scottish Borders and Dumfries and Galloway. We have a main office (leased) in Dumfries, an owned office in Selkirk and small satellite offices in Eyemouth and Stranraer to allow us to provide coast to coast coverage.
- SOSE operates a hybrid working model with staff actively using those offices, particularly for collaborative working and knowledge sharing.
- SOSE provides co-location with partner organisations – co-locating with SE (ended 2024), and now Visit Scotland in the Dumfries office.
- We are proactive in marketing and leasing available space in our office in Selkirk and regularly review the lease arrangements for our office in Dumfries.

The reduction in our budget in 2024-25 across resource and capital provided a challenge to balance resources whilst delivering our ambitions. As with the prior year the largest risk to SOSE is securing enough resource funding in future years and we will continue to work with the Scottish Government on this, monitoring the likely outlook and utilise scenario planning to model how this will look in the future.

As part of the Scottish Government Public Service Reform programme, SOSE continues to focus on reducing operating costs and increasing efficiency in order to direct as much resource as possible to support businesses and communities in the south of Scotland.

SOSE is still, comparatively, a new organisation without legacy structures and processes. SOSE is also driving real reform across the South of Scotland and making significant progress in supporting the growth of a rural economic powerhouse.

SOSE has been instrumental in: –

- Securing 2 hydrogen hot spots in the South of Scotland and ensuring the South of Scotland gains recognition as a renewable energy powerhouse whilst establishing a reputation as an Energy Transition region.
- Collaboratively, developing the South of Scotland Cycling Strategy and securing the UCI Region of the Bike accreditation.
- Developing the Net Zero Investment guide, and also with SDI, the Invest in the South of Scotland website driving up inward investment opportunities by over 400%.
- Developing agriculture and dairy innovation and supply chain opportunities in the region which supplies over 80% of Scotland's dairy.

SOSE see the (as yet) largely untapped potential for rural economies to drive significant economic, social and wellbeing growth. SOSE seeks to support and drive this in the most efficient and effective way possible and see PSR as an opportunity to accelerate that process.