

Finance and Public Administration Committee
6th Meeting 2024, (Session 6)
Tuesday 18 February 2025

Scottish Government's response to the Committee's report on the Scottish Budget 2025-26: evidence session

Purpose

1. The Committee is invited to take evidence from Shona Robison MSP, Cabinet Secretary for Finance and Local Government, on the Scottish Government's response to the Committee's Report on Budget Scrutiny 2025-26, ahead of Stage 2 proceedings on the Budget Bill (Scotland) (No.4) Bill due to take place at the same meeting. The Cabinet Secretary will be accompanied by the following Scottish Government officials:
 - Jennie Barugh, Director of Fiscal Sustainability and Exchequer Development,
 - Richard McCallum, Director of Public Spending, and
 - Lucy O'Carroll, Director of Tax, Scottish Government.
2. To support the evidence session, this paper provides a summary of key findings set out in the [Committee's Report on the Scottish Budget 2025-26](#), along with issues raised in the Scottish Government's response to it received on 13 February. The response is attached as an Annexe to this paper. Other relevant points made by the Cabinet Secretary or Minister for Public Finance during the Committee's pre-budget debate on [30 January](#) and the Stage 1 debate on [4 February](#) are also included below.

The Committee's key findings

3. Key findings from the Committee's Report on Budget Scrutiny 2025-26 are summarised under the broad themes below.

The Scottish Government's overall approach and presentation of figures

4. In its Report, the Committee—
 - requested that future Government responses to the Committee's reports be of improved quality and that outstanding recommendations from its pre-budget report are addressed,
 - set out continuing concerns regarding the Scottish Government's lack of medium- and long-term financial planning, including repeated delays in publishing key strategic financial documents,

- asked for details of the Scottish Government’s work on a Scottish spending review, including the timetable and when it will publish the framework document that precedes the review,
 - requested information on the purpose and time horizon of the Fiscal Sustainability Delivery Plan (FSDP),
 - asked the Scottish Government to conduct an exercise across portfolios to identify the number of ‘live’ strategies it has in place, by the end of June 2025,
 - called on the Scottish Government to build on its continuing improvements to the transparency of budgetary information by ensuring that routine in-year transfers made each year are baselined into the Scottish Budget and that public-private partnership costs are consistently presented across portfolio areas, and
 - asked that the 2025 MTFS includes detailed scenario planning for capital and resource borrowing, with details of how the Scottish Government will approach future negative reconciliations which exceed annual borrowing limits.
5. During the Committee’s pre-budget 2025-26 debate, the Cabinet Secretary advised that she has “instructed officials to begin planning for a Scottish spending review that will identify opportunities to optimise the use of Scottish Government funding over the longer-term”. The Scottish Government’s response to the Report states that “the tension between the availability of funding information and the desire to provide a stable planning platform for Scotland is at the heart of my thinking about the next Scottish Spending Review”. It goes on to say that “as part of the planning process, [Government] officials will consider the potential to pilot a ‘zero-based budgeting approach’ and how it might be used in a Scottish Government context”.
6. The response goes on to explain that the FSDP “will bring together and present in one place the actions being taken forward, within the overall approach set out in the MTFS, to ensure that the public finances are set on a sustainable footing over the medium-term”. It “will help improve oversight and understanding of the actions that the Scottish Government is taking, within the powers at its disposal over the medium term” and will focus on a five-year horizon.
7. The Scottish Government’s response goes on to state that the “Strategy and Delivery Directorate will undertake an exercise across portfolios to identify the number of ‘live’ strategies, to provide a baseline for numbers to be monitored and reduced wherever possible”.
8. As regards the Committee’s request regarding the presentation of in-year transfers, the Cabinet Secretary stated that “there are complexities in the Scottish budget, where policy responsibility can sit in one area with delivery elsewhere”, adding “however, I will reflect on that to consider whether we can do more to simplify the presentation of the next budget beyond what we have already done”.

The Scottish Government's approach to taxation

9. In its report, the Committee—

- reiterated its view that VAT assignment would be of no benefit to the Scottish Budget and would be both expensive to administer and potentially confusing to those expected to pay it,
- suggested there would be merit in carrying out a wider review of how the fiscal framework is operating, including how adjustments based on relative growth with the rest of the UK impact on income tax revenues in Scotland,
- noted the lack of a clear pathway forward in relation to reform of council tax, and
- asked the Scottish Government what specific plans it has in place to meet the expected shortfall in UK funding for increased employer National Insurance Contributions (NICs).

10. The Scottish Government's response states that "the Joint Working Group on Council Tax Reform will produce and publish our shared process for building consensus on reform early in 2025" and "we intend for that process to conclude before the end of this Parliament".

11. The Cabinet Secretary highlighted during the pre-budget debate that, "on 24 January, the Treasury advised that Scotland will receive only a Barnett share of the available funding, which is deeply concerning because it will create a shortfall of £300 million". The Scottish Government's response states that it continues to engage with the UK Government to seek full funding for the costs of this change to the public sector in Scotland. Based on the expected shortfall, the Scottish Government has confirmed that it will provide funding for around 60% of these additional costs for all portfolios, passing on the indicative UK Government funding in full.

The Scottish Government's spending choices

12. In its Report, the Committee—

- asked that the May 2025 MTFS includes details of how the Scottish Government is assessing the effectiveness and outcomes of its approach to the delivery of social security benefits as well as impacts from spending on social security over the block grant adjustment on other parts of the Budget,
- requested details of where funding would be found if, as suggested by the First Minister, the first payments for mitigating the two-child limit could be made as early as within the 2025-26 financial year,
- asked the Scottish Government to respond to the views of the Scottish Fiscal Commission and Auditor General for Scotland that greater clarity is needed around how workforce plans and pay progression fits within the overall public sector pay bill, and

- sought further details of the Scottish Government’s ambition to ‘right size’ the civil service workforce, including the target operating model it is working to, a timetable for this work, and how it will minimise any impacts of having a smaller workforce on policy delivery and implementation.

13. The Scottish Government response states in relation to mitigating the two-child limit that “if we are ready to deliver payments earlier, funding options will be considered in year based on an assessment of the financial position at that time”. It goes on to add that “any decisions on reprioritisation of funding to support early introduction of the policy will be transparently provided to the Committee and the Parliament”.

14. On public sector pay, the Scottish Government states that it “will take forward action to support public bodies to workforce plan effectively as part of the forthcoming Fiscal Sustainability Delivery Plan” (FSDP), including work “to develop improved re-deployment arrangements, where possible”. The response goes on to say that “I have asked the Minister for Public Finance to develop a programme of workforce reforms”, including “workforce trajectories to support the workforce control framework that is being developed for public bodies including recruitment controls, a workforce management policy and related governance arrangements”. The framework, it states, will be delivered close to the start of the 2025-26 financial year.

The Scottish Government’s approach to growing the economy

15. In its Report, the Committee—

- sought further details of how the Scottish Government is working to maximise the opportunities for universities and high-performing sectors in Scotland to be globally competitive,
- requested regular updates in relation to progress of, and outcomes from, the work of the Cabinet’s Investment and the Economy Sub-Committee, and
- strongly urged the Scottish Government to set out its priority capital commitments now to ensure it is in the best position to ‘hit the ground running’ with infrastructure projects at the start of the next financial year when capital funding is significantly increased.

16. The Scottish Government’s response indicates that “ensuring our universities are on a sustainable trajectory is at the heart of our reform programme for the post-school system, so that the significant investment we are making delivers the best outcomes for learners, the economy and society”.

17. The response also highlights that the Scottish Government has “prioritised funding to continue to support high-quality research and innovation across Scotland, increasing the investment in Higher Education capital (which includes funding for research) to over £368 million in 2025-26”. The Cabinet Sub-Committee on Investment and the Economy held its inaugural meeting on Tuesday 10 December 2024, with the key focus being the “development of a pipeline of significant investment propositions and identifying opportunities for

cross-portfolio working to accelerate investment”. Its next meeting is expected to take place in spring 2025, focusing on “how all areas of government can contribute towards increasing investment in housing, public infrastructure and Net Zero”.

The Scottish Government’s approach to public service reform

18. In its Report, the Committee—

- sought information on when the Scottish Government will publish further details regarding its Invest to Save fund, including the fund’s aims, the criteria against which bids from public bodies are to be assessed and how progress and outcomes will be monitored and measured for effectiveness.
- requested further details of the Scottish Government’s plans to publish a Public Service Reform Strategy, including its purpose and aims, how it will fit with other Government strategies, such as the new FSDP, and how success will be measured,
- asked for clarity on whether the Scottish Government will, as requested, 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, and
- suggested there would be merit in holding an annual debate on public service reform.

19. In the Committee’s pre-budget 2025-26 debate, the Cabinet Secretary stated that “on the PSR invest to save fund, I am pleased to confirm that we have written to public bodies to provide guidance and an application form to invite funding bids”.

20. During the Stage 1 debate on the 4 February, the Minister for Public Finance, Ivan McKee MSP advised that the Scottish Government is “moving forward with a summit of public body leaders in the middle of February”. Following this summit, it plans to “publish a strategy that will be agreed with that body of public service leaders as we work on the issues that need to be delivered for there to be a real reform agenda”. He went on to say that “we will make sure that we get real value from the Government’s spend on public services, focusing on prevention upstream and ensuring that there is a real collaboration and integration across those services”.

21. The Scottish Government’s response states that “we are committed to exploring how we can identify, monitor and increase spend on prevention across all public services. Officials are developing work on prevention in this context as part of a wider programme of analytical underpinning for public service reform”. This, it notes, will consider the practical implications and feasibility of quantifying prevention.

22. On the Committee’s recommendation to hold an annual public service reform debate, the Scottish Government states that “the Minister for Public Finance will discuss this recommendation with the Minister for Parliamentary Business and will look to progress a PSR debate in the coming months, subject to Parliamentary business accommodating this”.

Changes to the Budget as published

23. In a [letter to the Committee dated 28 January 2025](#), the Cabinet Secretary advised that the Scottish Government “has reached agreements with the Scottish Liberal Democrats and Scottish Greens to support the Budget, delivering on areas of shared priority and ensuring stability for Scotland’s public services”. She went on to say that “I will take forward arrangements to formally table amendments at Stage 2, which will give effect to additional spend during financial year 2025-26”.
24. Changes agreed include additional funding for drugs and alcohol services, hospices, targeted support for the college sector, nature restoration, establishing a pilot for a £2 cap bus fare in a regional transport partnership area, and extending free school meal eligibility in certain local authority areas.
25. The Cabinet Secretary’s letter also advises that the proposed package amounts to approximately £16.7 million in 2025-26. This, she notes will be funded by drawing down £3 million from ScotWind to support nature restoration, with the remaining amendments being funded through reduced debt servicing costs in 2025-26.

Next steps

26. Stage 2 proceedings on the Budget (Scotland) (No. 4) Bill will take place immediately following this evidence session on 18 February.
27. The Parliamentary debate on the Scottish Rate Resolution, which sets the rates and bands for Scottish non-savings, non-dividend taxable income for the following tax year, is scheduled for 20 February, and Stage 3 proceedings on the Budget (Scotland) (No. 4) Bill will follow on 25 February.

Committee Clerking Team
February 2025

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13 February 2025

Dear Kenneth,

2025-26 SCOTTISH BUDGET – COMMITTEE BUDGET SCRUTINY REPORT

Thank you for the Committee's 2025-26 Budget Scrutiny Report which was published on 29 January. I am pleased to enclose my response ahead of the Committee's Stage 2 consideration of the Budget Bill.

Annex A includes a detailed response to each of the Committee's recommendations.

I look forward to discussing the 2025-26 Scottish Budget further with the Committee at the Stage 2 session next week.

Yours sincerely,

SHONA ROBISON

Scottish Ministers, special advisers and the Permanent Secretary are covered by the terms of the Lobbying (Scotland) Act 2016. See www.lobbying.scot

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Report Section	Committee Recommendation	Scottish Government Response
<p>Short, medium, and longer term planning</p> <p>Paras 29 - 31</p>	<p>One area where the Committee has repeatedly expressed concerns is the extended delays in publishing key strategic financial documents. We consider this to be indicative of a wider problem where vital medium- and longer-term financial planning within the Scottish Government is lacking.</p> <p>The certainty of regular UK spending reviews and one autumn fiscal event each year provides a welcome opportunity for the Scottish Government to demonstrate its commitment to a more strategic approach to financial planning in future.</p> <p>The Committee therefore shares the view of the Scottish Fiscal Commission that the Scottish Government should not wait until the UK spending review is published before starting to work on its own spending review. We seek details of, and a timetable for, the work the Scottish Government is currently carrying out in preparation for a Scottish spending review and repeat our request that it considers taking a ‘zero-based budgeting approach’, learning lessons from Estonia.</p>	<p>I welcome the UK Government’s intention to move to a more regular cycle of Spending Reviews and one fiscal event per year. The absence of a UK Spending Review since 2021 has created significant challenges in the management of the Scottish public finances. The outcome of the UK Spending Review is set to be announced on 11 June 2025.</p> <p>I have instructed officials to begin planning for a Scottish Spending Review that will identify opportunities to optimise the use of Scottish Government funding over the longer term. As part of the planning process, my officials will consider the potential to pilot a ‘zero-based budgeting approach’ and how it might be used in a Scottish Government context.</p> <p>The conclusion of the UK Government’s 2025 spending review will provide key funding information to underpin the Scottish Government’s own multi-year spending review. I am keenly aware of the benefits of providing multi-year spending plans for the wider public sector, third sector, businesses and other organisations.</p> <p>I am also aware that setting out multi-year spending plans ahead of a Scottish election could restrict the options of a new administration.</p> <p>The tension between the availability of funding information and the desire to provide a stable planning platform for Scotland is at the heart of my thinking about the next Scottish Spending Review.</p> <p>I have therefore committed to delivering a reset of our Infrastructure Investment Plan pipeline following the UK Spending Review. I have asked my officials to develop plans to publish the pipeline reset in September and will confirm the date of publication in due course.</p>

Report Section	Committee Recommendation	Scottish Government Response
<p>Short, medium, and longer term planning</p> <p>Para 32</p>	<p>The Committee requests clarification from the Scottish Government regarding when it will publish the framework document setting out “the economic and political context, the criteria which will govern the assessment of budgets and the process and timetable for its spending review”, as required under the Budget Process Agreement. This timetable must allow time for full Parliamentary scrutiny and the opportunity for committees, external bodies and the public to input to and influence both the approach to, and outcomes of, the Scottish spending review.</p>	<p>As part of planning for the spending review I can confirm I will engage with the Finance and Public Administration Committee and the Scottish Fiscal Commission on the development of the framework, its approach and timeline.</p> <p>The Scottish Government recognises the importance of providing adequate time for Parliamentary scrutiny and engagement.</p>
<p>Para 33</p>	<p>In addition, the Committee seeks assurances from the Scottish Government that it will publish its Medium-Term Financial Strategy (MTFS) no later than May 2025 to support pre-budget scrutiny. Given its purpose is to provide broad projections and scenario plans, it is our firm view that the MTFS need not wait until the outcomes of the Scottish spending review and, indeed, with no MTFS since May 2023, details of the Scottish Government’s medium-term approach are now urgent.</p>	<p>I intend to return to normal scheduling for Medium Term Financial Strategy (MTFS) this year. This means that the government is planning to publish the MTFS in late May, in advance of the UK Spending Review.</p> <p>Publishing ahead of the UK Spending Review means that the funding outlook in the MTFS will be based on updated OBR forecasts which are due to be published in March 2025 (and SFC forecasts which will be published alongside the MTFS), but it will not include the impacts of the UK Spending Review on our Block Grant position. The multi-year outlook set out in the MTFS will therefore need to reflect the uncertainty generated by the absence of a finalised UK Spending Review.</p> <p>I will update Parliament on the updated funding position once the conclusions of the UK Spending Review are known.</p> <p>As previously announced, the MTFS will be accompanied by the publication of the Fiscal Sustainability Delivery Plan.</p>

Report Section	Committee Recommendation	Scottish Government Response
<p>Short, medium, and longer term planning</p> <p>Para 34</p>	<p>We request further details of the overall purpose of the new Fiscal Sustainability Delivery Plan (FSDP) and how this sits within the overall suite of financial documents recommended by the Budget Process Review Group in 2017. It would be useful to know, for example, whether the FSDP will follow the approach taken by the SFC in its 2023 fiscal sustainability report of covering a 50-year horizon.</p>	<p>In my opening statement at the Parliament's debate on fiscal sustainability, on 29 October 2024, I stated my intention to publish a five-year Fiscal Sustainability Delivery Plan (FSDP) alongside the Medium-Term Financial Strategy (MTFS) in 2025.</p> <p>It is my intention that the Delivery Plan will bring together and present in one place the actions being taken forward, within the overall approach set out in the MTFS, to ensure that the public finances are set on a sustainable footing over the medium-term. This will help improve oversight and understanding of the actions that the Scottish Government is taking, within the powers at its disposal over the medium term. As with the previous publications of the Medium Term Financial Strategy, the MTFS and FSDP will focus on a 5 year horizon.</p> <p>I will bring forward further details on this to the Committee in due course.</p>
<p>Para 35</p>	<p>The Committee is disappointed that “there is no central information held on reporting of the number of strategy documents” within the Scottish Government. We therefore ask that it conducts an exercise across portfolios to identify the number of ‘live’ strategies it has in place, to provide a baseline for numbers to be monitored and reduced wherever possible. We request that the Scottish Government reports back to the Committee on the outcomes of this exercise by the end of June 2025.</p>	<p>The interest of the Committee is understood and I have instructed officials to undertake new work to identify the current Scottish Government strategies in place, with a view to potentially streamlining.</p> <p>The Scottish Government’s Strategy and Delivery Directorate will undertake an exercise across portfolios to identify the number of ‘live’ strategies, to provide a baseline for numbers to be monitored and reduced wherever possible.</p> <p>This new work is beginning and a response and update will be provided to the Committee by the end of June.</p>

Report Section	Committee Recommendation	Scottish Government Response
<p>Short, medium, and longer term planning</p> <p>Para 36</p>	<p>The Committee appreciated the opportunity for early discussions with the Scottish Government in relation to the overall timetable for publication and scrutiny of the Scottish Budget 2025-26. Given the UK Government’s commitment to holding one autumn fiscal event each year, we ask that a similar engagement approach is taken in future years with a view to enabling any additional time to be shared between the Scottish Government and Scottish Fiscal Commission for developing budgetary proposals and forecasts, and for Parliamentary scrutiny.</p>	<p>The Scottish Government recognises the mutual benefit of early engagement on planning the Scottish Budget and will engage early with the Committee and the SFC on planning the 2026-27 Scottish Budget.</p> <p>Planning the date of the next Budget will be dependent on the UK Government confirming its fiscal plans after the UK Spending Review and the date of an autumn budget.</p>
<p>Presentation of Figures</p> <p>Para 42</p>	<p>The Committee welcomes the continuing improvements made to enhance the transparency of budgetary information. We ask that the Scottish Government builds on this work by ensuring that routine in-year transfers made each year are baselined into the Scottish Budget and that public-private partnership costs are consistently presented across portfolio areas.</p>	<p>The Scottish Government welcomes the Committees acknowledgement of the improvements in the budgetary information provided. The Government will consider further improvements that can be made to the presentation and transparency of the financial information set out as part of the budget process, including assessing the scope for more baselining of regular transfers and how public-private partnership costs are set out.</p>

Report Section	Committee Recommendation	Scottish Government Response
<p>Approach to the Scotland Reserve and Borrowing</p> <p>Para 50</p>	<p>The Scottish Government is asked to include in the 2025 Medium-Term Financial Strategy detailed scenario planning for capital and resource borrowing. This should include details of how it will approach future negative reconciliations which exceed annual borrowing limits, given ongoing financial pressures and forecasts for a £701 million negative reconciliation to the 2027-28 budget.</p>	<p>The 2025 Medium-Term Financial Strategy will set out the Government's strategy for delivering sustainable public finances, with focused action required across public spending, the economy and tax over the medium-term.</p> <p>The Resource Borrowing facility is much improved following the fiscal framework review with the annual limit doubling to £600 million and all limits increasing with inflation. By 2027-28 limits will have increased to around £650 million.</p> <p>This facility is still limited to addressing adverse reconciliations and forecast errors on tax and social security, therefore it cannot fund additional expenditure.</p> <p>Reconciliations and borrowing limits will continue to change as forecasts are updated, and decisions can only be made at the relevant budget.</p>
<p>Para 51</p>	<p>We seek the Scottish Government's assurances that it will update the Committee on progress after each phase of its due diligence process in relation to the issuing of bonds. This is crucial to ensure that any future decisions on this matter can be scrutinised effectively.</p>	<p>We published a further update to the work on Scottish Government bonds alongside the 2025-26 Scottish Budget.</p> <p>The Scottish Government remains committed to ensuring that both Parliament and the Finance Committee are updated on the work as it progresses. The government would be happy to discuss with the Committee how best this could be done.</p>

Report Section	Committee Recommendation	Scottish Government Response
<p>Tax</p> <p>Para 65</p>	<p>The Committee considers the production of a Tax Strategy by the Scottish Government to be a welcome first step in providing clarity regarding the overall approach to taxation in Scotland. As it was not possible to gather detailed evidence on the Strategy during budget scrutiny, we plan to continue to examine it as part of our ongoing financial scrutiny.</p>	<p>Noted.</p>
<p>Para 66</p>	<p>Our initial observations are that the Strategy should have included the Scottish Government’s plans for council tax reform, given this is long overdue.</p>	<p>The Tax Strategy reaffirms our continued work to build a consensus on Council Tax reform, in partnership with COSLA.</p> <ul style="list-style-type: none"> • Our partnership with local government is key to making progress, and recognises that Council Tax is first-and-foremost a local tax. • The Joint Working Group on Council Tax Reform will produce and publish our shared process for building consensus on reform early in 2025. • We intend for that process to conclude before the end of this Parliament.
<p>Para 67</p>	<p>As the Scottish Government is aware, we are strongly of the view that more detailed research is needed on behavioural responses to tax policy. The Tax Strategy’s focus on building an evidence base, including on behavioural responses, to inform future decision-making on tax policy is therefore welcome. We look forward to receiving further details alongside the 2025 MTFS.</p>	<p>The Committee’s interest is noted. Our “Areas of Research Interest and Research Question” are set out in our Tax Strategy. These are the strategic questions which we expect to inform our programme of evidence and evaluation over the next five years and include a number on the topic of Behaviour change and tax policy, including distributional impacts.</p> <p>In line with commitments in the Tax Strategy, we will publish further research on the impacts of Income Tax policy on businesses and competitiveness in Scotland in 2025.</p> <p>We are also committed to evaluating the changes to Income Tax policy made in 2023-24 and 2024-25 when data becomes available.</p>

Report Section	Committee Recommendation	Scottish Government Response
<p>Tax</p> <p>Para 68</p>	<p>The Committee reiterates its view that VAT assignment would be of no benefit to the Scottish Budget and would be both expensive to administer and potentially confusing to those who pay it.</p>	<p>Noted.</p>
<p>Para 79</p>	<p>The Committee shares the Scottish Government’s view that there would be merit in carrying out a wider review of how the fiscal framework is operating, including how adjustments based on relative growth with the rest of the UK impact on income tax revenues in Scotland.</p>	<p>Noted.</p>
<p>Other Devolved Taxes</p> <p>Para 86</p>	<p>The Committee looks forward to receiving updates on progress with the Scottish Government’s consideration of a possible new Carbon Land Tax and Cruise Ship Levy, and on its review of Land and Buildings Transaction Tax. We also seek confirmation of the timetable for introducing a Bill to create a Building Safety Levy in Scotland.</p>	<p>The Government is working with the Scottish Land Commission to explore the role of taxation and fiscal interventions in supporting the reduction of greenhouse gas emissions from land. This includes consideration of options for a Carbon Land Tax. We will be consulting closely with a broad range of stakeholders and the first roundtable events will be taking place in March.</p> <p>The Government is exploring giving local authorities the power to introduce a cruise ship levy. In the coming weeks we will launch a public consultation to formally hear the views of those affected by such a levy, and to consider further the impacts on business, local government, and others.</p> <p>The Government is working closely with stakeholders to develop the content of the announced LBTT review to ensure it is targeted at those areas of policy which would most benefit from evaluation. We intend to launch this phased review in Spring 2025.</p> <p>This year’s Programme for Government set out our intention to introduce a Bill during this parliamentary year to establish a Building Safety Levy in Scotland, subject to the devolution of the necessary powers. As the devolution of the necessary powers has now taken place, we will introduce the relevant Bill ahead of summer recess.</p>

Report Section	Committee Recommendation	Scottish Government Response
<p>Council Tax</p> <p>Para 93</p>	<p>The Committee repeats our pre-budget 2025-26 recommendation that the Scottish Government sets out “how it will create the space for discussions and consensus-building in this Parliamentary session” on council tax reform. We note the lack of a clear pathway forward in the Scottish Government's response to this recommendation.</p>	<p>The Committee’s interest in council tax reform is noted.</p> <p>As noted against recommendation 66, this government is committed to working to build a consensus on Council Tax reform, in partnership with COSLA.</p> <ul style="list-style-type: none"> • Our partnership with local government is key to making progress, and recognises that Council Tax is first-and-foremost a local tax. • The Joint Working Group on Council Tax Reform will produce and publish our shared process for building consensus on reform early in 2025. • We intend for that process to conclude before the end of this Parliament.
<p>Para 94</p>	<p>We further welcome the recent decision of the Local Government, Housing and Planning Committee to carry out a short inquiry on council tax reform. We hope that this work will provide the impetus for Government leadership to make real progress on this important issue.</p>	<p>This government welcomes the Local Government, Housing and Planning Committee’s inquiry on council tax reform.</p>
<p>Employer National Insurance Contributions</p> <p>Para 98</p>	<p>The Committee asks the Scottish Government what specific plans it has in place to meet the expected shortfall in UK funding for increased employer NICs, including the impact on the Scottish Budget were the Scottish Government to provide any additional funding required or on public bodies if they had to absorb some of the costs.</p>	<p>The Scottish Government continues to engage with UK Government to seek full funding for the costs of this change to the public sector in Scotland. An indicative funding assumption provided to Scottish Government represents a material shortfall to the expected costs to public sector employers for their directly employed staff.</p> <p>Based on this assumption Scottish Government has confirmed that it will provide funding for around 60% of these additional costs for all portfolios. This passes on the indicative UK Government funding in full. The additional funding will be reflected through in-year Budget revisions following normal processes. Public sector organisations are being asked to make plans to meet the remaining costs from within their budgets. This change has created a significant strain on public finances and the Scottish Government is supporting public bodies to improve the value delivered from public resources through its Public Service Reform programme.</p>

Section/ Paragraph	Committee Recommendation	Scottish Government Response
<p>Social Security Spending</p> <p>Para 107</p>	<p>The Committee notes that the Scottish Government intends to provide an update on the fiscal sustainability of social security spend as part of its 2025 MTFS. We ask that this includes details of how the Scottish Government is assessing the effectiveness and outcomes of its approach to the delivery of benefits as well as impacts on other parts of the Budget. We also note the Scottish Fiscal Commission's letter to the Social Justice and Social Security Committee providing further detail in relation to its forecasts for Child Disability Payment.</p>	<p>Social security is an investment in the people of Scotland based on the principles of dignity, fairness and respect as agreed unanimously by the Scottish Parliament. The investment demonstrates our national mission to end child poverty and our commitment to help low-income families with their living costs, support older people and unpaid carers, and enable disabled people to live full and independent lives. Improving outcomes and delivering value for money are at heart of our system and we are evaluating and monitoring performance closely. We are still at a relatively early stage of our social security journey, continuing with the delivery of new benefits and case transfer.</p> <p>The Scottish Government recognises that social security is a substantial and growing part of the overall budget. The impact of that spend is positive in improving outcomes and therefore reflects shared priorities across Parliament. Much of the increase in expenditure is due to the success in benefit take up as well as new benefits and entitlements only available here in Scotland. However, a significant element also relates to UK-wide trends in expenditure which do not have an additional call on devolved budgets. We fully recognise the need to carefully analyse and understand trends to understand implications for Scottish benefit expenditure, and we are committed to do so.</p> <p>The Office of the Chief Social Policy Advisor (OCSPA) evaluation synthesis report demonstrates emerging understanding of the impact of expenditure on social security in relation to shared Scottish Government outcomes.</p> <p>The Scottish Government has noted the Committee's interest in this and will consider it further as part of the scoping of the MTFS and Fiscal Sustainability Delivery Plan.</p>

Section/ Paragraph	Committee Recommendation	Scottish Government Response
<p>Two Child Limit</p> <p>Para 117</p>	<p>The Committee notes that the Scottish Fiscal Commission (SFC), up until late notification of the two-child limit policy, had found engagement and information-sharing with the Scottish Government to be “exemplary”. While these signs of improvement are welcome, it is crucial that significant policies are notified to the SFC in time for full costings to be included in budget forecasts. Failure to do so presents significant risks to the affordability and sustainability of the Scottish Budget.</p>	<p>Noted. The Scottish Government recognises and values the important role that the SFC has in the Budget process and the importance of supporting the SFC’s forecasting process and timetable. The Scottish Government always aims to work to the required deadlines. On the specific actions relating to the two child benefit cap, this was a complex decision that needed to be considered in the context of the settlement from the UK Government following the Autumn Statement, the subsequent fiscal forecasts produced by the SFC and a range of other spending priorities and commitments, both within social security and other portfolio areas.</p> <p>At my evidence session with FPAC on 14 January I set out the wider circumstances about the process in developing the shape of the budget. I noted the First Minister’s challenge to Cabinet Secretaries to look again at doing more to tackle child poverty, and that this led to the final decision on the two child cap. I also noted to the Committee my apology to the SFC for our communication at the point of decision-making on the two child cap, and that I would otherwise have wanted to give earlier notification.</p> <p>I am very grateful to the SFC for the reasonable approach they took and for providing a separate forecast report on this in January 2025. We will continue to engage productively with the SFC for future events.</p>
<p>Para 118</p>	<p>We note the First Minister’s announcement that the first payments for mitigating the two-child limit could be made as early as within the 2025-26 financial year if systems are in place. Given the Scottish Government has not included any funding in the 2025-26 Budget to cover these payments, the Committee asks for details of where this funding will be found as well as potential impacts on other areas of spend.</p>	<p>If we are ready to deliver payments earlier, funding options will be considered in year based on an assessment of the financial position at that time.</p> <p>Any decisions on reprioritisation of funding to support early introduction of the policy will be transparently provided to the Committee and the Parliament.</p>

Section/ Paragraph	Committee Recommendation	Scottish Government Response
<p>Two Child Limit</p> <p>Para 119</p>	<p>The Committee welcomes the Cabinet Secretary’s commitment to provide a copy of the options appraisal setting out why it chose this specific model for mitigating the two-child cap and looks forward to considering this in due course.</p>	<p>Ministers have considered a range of possible approaches to mitigation, balancing cost, the pace at which payment arrangements can be put in place and, as the First Minister said in his speech on child poverty given at The Robertson Trust on 15 January, the need to get the systems up and running safely. Development work is rapidly proceeding.</p> <p>Our working assumption is that we will bring forward regulations to the Scottish Parliament using the relevant powers in the Scotland Act 2016 to ‘top-up’ reserved benefits, but we remain keen to discuss with the Secretary of State the support the DWP could provide to make payments as quickly as possible.</p> <p>The Cabinet Secretary for Social Justice will keep Parliament advised as this work progresses.</p>

Section/ Paragraph	Committee Recommendation	Scottish Government Response
Para 129	<p>We also seek further details of the Scottish Government’s ambition to ‘right size’ the civil service workforce, including the target operating model it is working to, a timetable for this work, and how it will minimise any impacts of having a smaller workforce on policy delivery and implementation.</p>	<p>Scotland’s public sector is relatively larger and better paid when compared to the rest of the UK. In Scotland, 22.6% of people in employment are in the public sector, compared to 18.1% for the UK as a whole.</p> <p>We will continue to consider Scotland’s changing population which will continue to impact on public services and workforce demands in the coming years. For example, over the next five years, the number of over-65s is forecast to grow which will drive pressures in health and social care. At the same time, the under-16 population is forecast to decrease by 7.4%.</p> <p>With relatively more public sector workers in Scotland compared to the rest of the UK, as well as higher pay for public sector workers in Scotland on average, this places a structural pressure on our budgets.</p> <p>I have asked the Minister for Public Finance to develop a programme of workforce reforms. This includes workforce trajectories to support the workforce control framework that is being developed for public bodies including recruitment controls, a workforce management policy and related governance arrangements. The framework will be delivered close to the start of the 2025-26 financial year.</p> <p>In addition, we will implement internal recruitment and monthly headcount reporting for public bodies to monitor the implementation of workforce reform, and we are reviewing recruitment approval processes for public bodies. Our progress on this will be included in the Fiscal Sustainability Delivery Plan.</p> <p>Within the core Scottish Government the total workforce has reduced in the last two financial years, and the Budget sets out an expectation that the permanent workforce will reduce in the financial year ahead. The investment in corporate systems and wider Public Sector Reform are sought to provide efficiencies that minimise any impacts of reducing the workforce.</p> <p>We are committed to providing high quality public services, while doing all we can within the powers at our disposal to ensure sustainable public finances.</p>

Section / Paragraph	Committee Recommendation	Scottish Government Response
<p>Scotland's Competitiveness</p> <p>Para 143</p>	<p>The Committee notes the actions set out in the Scottish Government's response to our pre-budget 2025-26 report in relation to growing the economy, including its plans to prioritise funding for research, knowledge exchange and innovation. We also anticipate receiving additional written evidence from the Cabinet Secretary on the sustainability of the higher education sector and on work being carried out to improve the flexibility and responsiveness of the college sector to enable skills to be matched to the needs of business and the economy.</p>	<p>We recognise the crucial role that our universities play in the provision of post-school education and skills and that they have a pivotal role in delivering a highly skilled graduate workforce, supporting the economic growth now and into the future. Ensuring our universities are on a sustainable trajectory is at the heart of our reform programme for the post-school system, so that the significant investment we are making delivers the best outcomes for learners, the economy and society.</p> <p>The Scottish Government and Scottish Funding Council (SFC) will continue to offer support to individual universities, as autonomous institutions, as they develop their own plans to mitigate financial challenges. In his recent letter of guidance to the SFC, the Minister for Higher and Further Education made clear his expectation that the SFC considers the financial sustainability of individual institutions, and needs of learners, as part of any decisions around funding allocations for 2025-26.</p> <p>A Universities Tripartite Group has been established to create a new forum where the Scottish Government, SFC and Universities Scotland (US) can engage in regular dialogue on the challenges facing the sector. This Group has met twice thus far in September and December 2024, with a focus on how universities can support delivery of the Scottish Government's key strategic priorities. This includes reform of the post-school system, and how US, the Scottish Government and the SFC can work together to ensure the long-term sustainability of the sector.</p> <p>A fresh set of priorities for the Colleges Tripartite Alignment Group were agreed last year and work is underway across those areas, namely diversification of funding into the sector, establishment of a new way to flexibly fund investment in Curriculum Transformation, and exploration of the breadth of delivery via colleges.</p> <p>Members of the Committee may be interested to know that the Colleges Tripartite Alignment Group has a webpage on the Scottish Government website where further information can be found, for example, detailing areas of the Group's work: Colleges: Tripartite Alignment Group - gov.scot.</p>

		<p>As a result of work progressed through that Group, the Minister for Higher and Further Education wrote to all colleges on 28 January to formalise changes to the college asset disposals process, and guidance from the SFC will be issued imminently – this will enable colleges to retain a more significant proportion of the value of any sale to invest locally. Proactive work remains ongoing by the Group to identify and implement workable flexibilities that will help ease colleges’ financial pressures while ensuring accountability for public funds.</p> <p>And also announced on 28 January, this government will invest £3.5 million in creating an Offshore Wind Skills Programme and College Care Skill Programme, supporting a pipeline of skilled workers.</p>
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Section/ Paragraph	Committee Recommendation	Scottish Government Response
Para 144	<p>Given analysis by UK Research and Innovation showing that for the University of Strathclyde’s Continuous Manufacturing and Crystallisation work, £63 is generated for the wider economy for every £1 that is spent on research, the Committee seeks further details of how the Scottish Government is working to maximise the opportunities for universities and high-performing sectors in Scotland to be globally competitive.</p>	<p>We recognise the vital role of our research sector in delivering on Scotland’s ambitions and research sits at the heart of a number of our key policies and strategies, including the Programme for Government, Scotland's National Strategy for Economic Transformation (NSET), the National Innovation Strategy and the Purpose and Principles for Post-school Education, Research and Skills.</p> <p>The Scottish Government has prioritised funding to continue to support high-quality research and innovation across Scotland, increasing the investment in Higher Education capital (which includes funding for research) to over £368 million in 2025-26. We are providing core funding for research to universities in Scotland via the Scottish Funding Council (SFC) to maintain a strong platform for attracting further investment.</p> <p>We also continue to fund a portfolio of knowledge exchange and innovation investments, including the Innovation Centres, Interface and Alliances for Research Challenges (ARCs). We also continue to liaise with the UK Government Department of Science, Innovation and Technology (DSIT) and its key agency, UK Research and Innovation (UKRI), as well as other governments, funders and stakeholders, to increase the impact of university research in Scotland.</p>
Para 145	<p>We further note the creation of a Cabinet Sub-Committee on Investment and the Economy, which aims to “help create a business environment that drives investment and growth”, including by making progress with key opportunities identified in the Green Industrial Strategy. The Committee requests regular updates on progress and outcomes from the Cabinet Sub-Committee’s new strands of work.</p>	<p>The Cabinet Sub-Committee on Investment and the Economy (CSC-IE) held its inaugural meeting on Tuesday 10 December 2024. The key focus for members centred around the development of a pipeline of significant investment propositions and identifying opportunities for cross-portfolio working to accelerate investment. The next meeting of the CSC-IE is expected to take place in spring 2025, focusing on how all areas of government can contribute towards increasing investment in housing, public infrastructure and Net Zero.</p> <p>The attached link to the CSC factsheet illustrates the purpose of the CSC-IE. The Scottish Government provides economic progress updates, for instance through the National Strategy for Economic Transformation annual report.</p>

Section / Paragraph	Committee Recommendation	Scottish Government Response
Para 146	<p>The Committee agrees with the Scottish Fiscal Commission that the significant increase in capital spending in 2025-26 allows the Scottish Government “to restart paused capital projects and make some new commitments”. We therefore remain disappointed that the Scottish Government continues to hold back from publishing its Infrastructure Investment Plan pipeline refresh until after the UK spending review. We strongly urge that it now sets out its priority commitments to ensure it is in the best position to ‘hit the ground running’ with infrastructure projects at the start of the next financial year when capital funding is significantly increased.</p>	<p>The 2025-26 capital budget is fully committed and this government will be ‘hitting the ground running’.</p> <p>I have instructed officials to work on a reset of the infrastructure pipeline to 2026-27 with the intention of publishing this in September following the outcome of the UK Spending Review.</p>

Section / Paragraph	Committee Recommendation	Scottish Government Response
<p>PSR Overview</p> <p>Para 152</p>	<p>In future years we expect to receive the Scottish Government's six-monthly public service reform updates as early as possible in the pre-budget and budget process to ensure that they can be scrutinised effectively. We also repeat our recommendation that the Scottish Government provides more information in its six-monthly updates on the upfront costs allocated to reform and cumulative savings.</p>	<p>We will continue to report on public service reform progress at 6-monthly intervals as committed, with the next update due in mid-2025. The December 2024 update served to reset the rhythm and we expect to provide our next report ahead of the summer recess.</p> <p>We set out data on savings realised and projected on key efficiency programmes to the Parliament in the September 2024 update and will continue to report similarly going forward. More detailed information on costs allocated to reform will be provided in particular around the 'invest to save' fund as it progresses. The Minister for Public Finance has committed to continue to engage with the Committee on this issue and will do so.</p>
<p>Invest to Save fund</p> <p>Para 155</p>	<p>The Committee seeks details of when the Scottish Government will publish further information regarding its Invest to Save fund, including the fund's aims, the criteria against which bids from public bodies are to be assessed and how progress and outcomes will be monitored and measured for effectiveness.</p>	<p>The Scottish Government has written to public bodies with guidance and an application form inviting bids for the fund. We are happy to share both the guidance and application form with the Committee.</p>

Section/ Paragraph	Committee Recommendation	Scottish Government Response
<p>PSR Leadership</p> <p>Paras 164 - 165</p>	<p>We share the view of the Auditor General for Scotland that the Scottish Government needs to demonstrate stronger leadership and bring an overall vision to the Public Service Reform Programme, for real progress to be made, including in relation to changing models for public service delivery</p> <p>We therefore seek further details of the Scottish Government's plans to publish a Public Service Reform Strategy, including the purpose and aims of this document, how it will fit with other Government strategies, such as the new Fiscal Sustainability Delivery Plan, and how success will be measured.</p>	<p>The First Minister set out his priorities in the Programme for Government and is clear that improving public services is one of the four priorities of this Government. These priorities are clear and well established. The vision for public service reform (PSR), the priority of PSR and the Cabinet commitment to PSR is absolutely clear.</p> <p>The Minister for Public Finance is planning to hold a PSR Summit on 17 February, where the upcoming strategy will be the focus of discussions. The summit will provide an opportunity for representatives of public bodies, local government, third sector and private sector to share their views. The summit will galvanise action, as well as informing our strategic approach. The strategy will publish in due course.</p> <p>PSR is part of the Government's approach to fiscal sustainability and the Fiscal Sustainability Delivery Plan will reflect this.</p>

Section/ Paragraph	Committee Recommendation	Scottish Government Response
<p>Prevention</p> <p>Paras168-169</p>	<p>The Committee welcomes the Public Service Reform Programme’s renewed focus on prevention and early intervention. We also support the Auditor General’s commitment to work with the Scottish Government to better define preventative expenditure and we look forward to receiving an update from the Scottish Government on this work in early course.</p> <p>We are however unclear from the Scottish Government’s response to our pre-budget report whether it has accepted our recommendation that it considers and reports back to the Committee on the potential benefits, risks, and costs of introducing a new category of public expenditure on preventative spend. We request that this recommendation is now actioned.</p>	<p>The Scottish Government is committed to prioritising prevention and increasing spend on preventative approaches.</p> <p>In doing so, it is important to note that classifications of public expenditure as set out in the Budget document are dictated by the UK public expenditure framework within which the Scottish Government is required to operate. Financial information set out in the document is a disaggregation that agrees to totals available funding by budget category as set out in that framework. Any additional consideration of preventative spending may therefore have to form an additional disclosure rather than be an additional category withing the existing analysis.</p> <p>Nevertheless, we are committed to exploring how we can identify, monitor and increase spend on prevention across all public services. Officials are developing work on prevention in this context as part of a wider programme of analytical underpinning for public service reform. This will consider the practical implications and feasibility of quantifying prevention.</p> <p>We will seek a conversation about this with the Auditor General. Progress will be provided to the Committee as part of future updates on Public Service Reform.</p>

Section/ Paragraph	Committee Recommendation	Scottish Government Response
<p>Public and Private Collaboration on Reform</p> <p>Paras 174-175</p>	<p>The Committee believes that there would be merit in the Scottish Government leading an annual parliamentary debate on public service reform, given reform is a significant priority in ensuring fiscal sustainability, and touches on the remits of almost all committees and on the lives of every individual. The possible role of public-private partnerships in enhancing capability for reform could be explored as one element of this important debate.</p> <p>We ask the Scottish Government to give consideration to when would be the best time in the parliamentary calendar to schedule this debate.</p>	<p>The Minister for Public Finance will discuss this recommendation with the Minister for Parliamentary Business and will look to progress a PSR debate in the coming months, subject to Parliamentary business accommodating this.</p>