

Scotland's public finances in 2023-24: the impact of the cost of living and public service reform

Relevant links:

- [Call for views](#)
- [Scottish Government resource Spending review](#)

About the David Hume Institute

The [David Hume Institute](#) (DHI) is a think tank, established in 1985 to increase diversity of thought on the economy and society in Scotland. Central to our work are the people of Scotland, including those who are seldom heard; from different ethnic and cultural backgrounds; different genders, ages and abilities.

We apply the critical thinking which has long defined DHI to encourage action to address the contemporary issues of our time.

DHI welcomes the opportunity to respond to this consultation. Our response draws on a range of previous research.

1. The Scottish Government's Resource Spending Review assumes that the current taxation policies are maintained while funding for health and social care and social security is prioritised. Are these the right priorities and approach for the Scottish Budget 2023-24 and until 2026-27?

- In order to meet the government's priorities of the National Performance Framework (NPF) including the legal duty to reduce child poverty, it will be essential to prioritise funding for social security and health and social care.

However, given the overall size of the government's spending envelope, choices about how and where to spend in these priority areas in order to maximise impact will be essential. Increasing the size of the envelope, for instance, through growing the tax base would help support the projected increasing costs due to an ageing population.

People in Scotland are indicating that pooling risk by maintaining effective public services is a goal that they support, even if personal taxation is slightly higher.¹

¹ Towards a living Income August 2022 IPPR [Online](#). Accessed 4/8/22

- The Scottish Government’s legal duty to reduce child poverty means by 2023-4 fewer than 18% of children should be living in relative poverty, with this reducing to less than 10% by 2030. For the period 2018-2021, the proportion of children in relative poverty after housing costs was 21% and with rising inflation and cost of living, meeting these targets is likely to become harder.²
- The multiple challenges facing the NHS, including growing waiting lists, staffing challenges, long waits at A&E and delayed hospital discharges, have significant impacts on people’s lives. Prioritising health and social care spending to help meet the challenges whilst moving towards preventative spending is critical.

For example on cancer waiting times, in the first quarter of 2022, just 76.9% of patients started treatment within the 62-day standard compared to a target 95%.³ Reducing waiting times is not a simple challenge of more doctors and nurses. There are crucial, often unseen roles such as radiotherapy medical physicists, where recruitment and retention has been significantly affected by Brexit.⁴ This role is critical to the calculation and delivery of safe and accurate doses for each individual cancer treatment dose. The shortage of medical physicists is also affecting other areas where these roles are critical to safety and accuracy of diagnostic imaging equipment (X-Ray, CT, MRI, ultrasound); general medical devices (eg ECG, infusion pumps, defibrillators, blood pressure monitors); and nuclear medicine (eg PET scans, bone density scans and therapeutic treatments).

- Throughout our research with people across Scotland, housing comes up as a key priority from individuals and is critical to achieving NPF targets. When housing costs are taken into account relative poverty rates rise to 1 in 5 for the period 2018-2021.⁵ With 1 in 7 (14%) households in Scotland living in the private rented sector, rising inflation and rent affordability is a growing area of concern for private tenants along with relative insecurity of tenure and quality.⁶

Better use of existing measures such as Rent Pressure Zones and Short-Term Let Control Areas, as well as innovative action in hotspots of second home ownership could help tackle rising housing costs and insecurity. Supporting local authorities’ work in these areas would support the Scottish Government’s NPF targets.

² Scottish Government. Poverty and Income Inequality in Scotland 2018-21. 2022. [Online](#). Accessed 3/8/22

³ Public Health Scotland. Cancer waiting times. 2022. [Online](#). Accessed 3/8/22.

⁴ Institute of Physics and Engineering in Medicine. Survey October 2021. [Online](#). Accessed 4/8/22

⁵ Scottish Government. Poverty and Income Inequality in Scotland 2018-21. 2022. [Online](#). Accessed 3/8/22.

⁶ Scottish Government Private Sector Rent Statistics Scotland 2010-2021. 2022. [Online](#). Accessed 3/8/22.

- Three other areas prioritised in the spending review are real term increases in funding for employability and training (up 67%), active and low carbon travel (up 47%) and concessionary fares and bus services (up 24%). With significant labour market challenges, and legal and moral duties to meet climate change targets this spending is likely to be necessary to help avoid further missed targets on the way to the 2045 deadline and transition to net zero.⁷

2. The Scottish Fiscal Commission (SFC) notes that Scottish income taxes have grown more slowly than the rest of the UK and is forecasting Scottish taxes to be around £360 million less in 2023-24 than they would be without income tax devolution. The SFC is also forecasting that, as a result of forecast error, the Scottish Budget in 2023-24 could be £221 million lower. How should the Scottish Government's Budget 2023-24 respond to this challenge?

- This question exemplifies the problems with calculating the size of the Scottish Budget envelope due to in-year adjustments. Following the publication of the Scottish Government's Medium Term Financial Strategy (MTFS) which includes the £221m figure in its 2023/24 budget, the figures have now changed. There is now a positive reconciliation of £50m in next year's budget.⁸ However, with the external environment significantly changed, other assumptions such as those on pay awards and energy costs will be vastly underestimated, and likely changes in the tax regime from the UK Treasury means figures could well change again.
- Until more is known about the outcome of the review of the fiscal framework and Barnett formula it is not possible to know if a similar situation could also occur in future years. This makes it harder for the Scottish Government to commit to multi-year funding agreements.
- Any future changes in tax by the UK Government are likely to also affect future Scottish Government budget decisions. The assumptions in the Spending Review are based on Scottish income tax levels remaining unchanged. Despite the obvious significant political pressure to follow any rUK policy on tax cuts, there is little evidence that cutting income tax will either boost economic growth or significantly help those most in need during an ongoing period of inflation. Nor is there evidence of a great appetite for the government cutting taxes amongst the public in Scotland.⁹

⁷ Institute for Fiscal Studies. IFS response to Scottish Resource Spending Review. 2022. [Online](#). Accessed 3/8/22.

⁸ Fraser of Allander Institute. Outturn Scottish income tax revenues 2020/21. 2022. [Online](#). Accessed 2/8/22.

⁹ Scottish Government. Tax policy and the budget – a framework for tax: consultation analysis. 5. Annex B – Public Attitudes Data. 2021. [Online](#). Accessed 3/8/22.

Calculations by the Institute of Fiscal Studies from announcements using the current fiscal framework and with no change to Scottish tax rates could produce Barnett consequential and boost the Scottish budget by close to £500m per year by 2026/27.¹⁰

- There is an urgent need for the Scottish Government to reduce levels of ‘inactivity’ amongst the workforce, particularly amongst older workers and those who might be suffering from chronic illness and disability, including mental health problems. Working to remove barriers for those who want to work and supporting people in transitions between working and receiving benefits would have an effect across the Scottish Government’s priorities.

If the 1 in 5 ‘inactive’ people who want to work (174,700 people) were able to, then tax receipts could be boosted through both income tax take and National Insurance consequential, and the budget increased via lower social security payments.¹¹ This could also help cut child poverty rates as the biggest risk factor for putting a child into poverty is to live in a household where no one is in paid work. The majority of economically inactive families in poverty in Scotland are permanently sick or disabled, and the relative poverty rate for children in households where someone is disabled is 30%.¹²

3. How should the Scottish Government respond to inflationary pressures and the cost of living crisis in its Budget 2023-24?

- The term ‘*cost of living crisis*’ implies the current conditions will be short-term. All evidence is pointing to a sustained period of inflation and tough economic conditions. This will undoubtedly affect Scottish Government spending as well as every person in Scotland.
- The most recent ONS data on earnings shows that private sector pay grew by 7.2% in March to May 2022, compared to just 1.5% for public sector pay.¹³ If public sector pay becomes out of kilter with the private sector this will adversely affect recruitment and retention.

¹⁰ Institute for Fiscal Studies. IFS response to Scottish Resource Spending Review. 2022. [Online](#). Accessed 3/8/22.

¹¹ Scottish Government. Scotland's Labour Market: People, Places and Regions - Statistics from the Annual Population Survey 2020/21. Section 5: Inactivity. 2021. [Online](#). Accessed 4/8/22.

¹² Scottish Government. Tackling child poverty - third year progress report : annex B - child poverty in families with a disabled adult or child. [Online](#). Accessed 4/8/22.

¹³ Office for National Statistics. Average weekly earnings in Great Britain: July 2022. [Online](#). Accessed 4/8/22.

We understand the Scottish Government’s policy of using public sector pay awards to provide “extra protection to the very lowest paid” in line with their commitments to reduce child poverty,¹⁴ however if continued long term this could risk devaluing more experienced public sector employees.

- The longer term challenges for the people of Scotland remain. Maintaining the essential focus on commitments to reducing child poverty and the transition to net zero is critical and will help ensure Scotland is more resilient to subsequent short-term challenges.
- Fully implementing the Scottish Government’s 2021 benefit take-up strategy¹⁵ should remain a priority. This helps support people to access funds they are entitled to which will be even more needed through the challenging financial times ahead. This includes £2.9 million of funding over three years to place welfare rights advisors in up to 150 GP surgeries in Scotland’s most deprived areas, alongside an expansion of pilots providing advice in education settings.
- Prioritising spending on public transport will help to reduce carbon emissions and cut household fuel costs, which also helps with the cost of living. Initially expand the current scheme beyond over 60s, under 22s and disabled people to those on low incomes. This approach is being taken in other countries such as Spain and Germany, and many cities around the world. Working faster to integrate public transport systems, in the mould of the Cop26 travel smartcard will also help. A reduction in air pollution will also have significant public health benefits and long term savings.

4. The Spending Review identifies key areas of reform over the lifetime of the Parliament to support its priorities in the Spending Review, including delivering efficiency savings across the public sector. How should the Scottish Government approach each of these areas to achieve efficiencies while also maintaining effective public services?

- digitalisation
 - maximising revenue through public sector innovation
 - reform of the public sector estate
 - reform of the public body landscape
 - improving public procurement
- Digitalisation - is not a word used in the Resource Spending Review.¹⁶ We are interpreting this question as meaning everything in the spending review related to digital

¹⁴ Scottish Government. Public sector pay policy 2022 to 2023. 2021. [Online](#). Accessed 3/8/22.

¹⁵ Scottish Government Social Security (Scotland) Act 2018: benefit take-up strategy - October 2021 [Online](#). Accessed 5/8/22

¹⁶ Scottish Government 2022 Investing in Scotland’s Future: Resource Spending Review [Online](#). Accessed 5/8/22

transformation and digital public services rather than digitalisation which is the process of converting information into a digital format.

Transformation to digital public services is essential for a modern Scotland, however not everyone is online or able to access services this way so alternative routes are also essential.

The Scottish Government's commitments to Open Data are essential to realising the benefits of digital public services. Our briefing paper indicates that over 95% of the data that could be open is still locked up, at an estimated annual cost to the Scottish economy of just over £2bn.¹⁷

- Reform and rationalisation of the whole public sector estate will be essential to meet budget challenges as well as to reap the benefits of digital transformation. However beyond public sector offices, critical infrastructure in communities such as community centres and libraries need to be prioritised due to their important contribution to social cohesion and should be considered preventative spending.
- Public procurement is already recognised as a strategic tool to help deliver on the national outcomes, but there is more that could be done to realise its full potential. The sustainable procurement duty¹⁸ in the Procurement Reform (Scotland) Act 2014 is underutilised.¹⁹

The Scottish Government's Annual Procurement Report 2020-21 states that it manages national contracts and frameworks through which public bodies and the Scottish Government spent more than £1 billion during the year.²⁰ NHS National Services Scotland states they manage over £1.4 billion worth of contracts. These are just two large examples, so the total procurement spending will be significantly higher.²¹

The Scottish Government report shows progress is being made on including some social criteria within contracts. For example 92% of suppliers pay the living wage but given the size of the total budget, creating "146 brand-new new jobs, 27 apprenticeships, 31 work placements and 453 qualifications" seems very low. The report also states "We awarded 21 new contracts with community benefits incorporated. This brings the total number of live contracts with community benefits to 62".²² This is just 0.6% of the total contracts awarded in 2020/1.

¹⁷ David Hume Institute. What is open data and why does it matter? 2021. [Online](#). Accessed 3/8/22

¹⁸ Sustainable Procurement Duty [Online](#). Accessed 5/8/22

¹⁹ Supplier Development Programme. [Online](#). Accessed 16/3/22

²⁰ Scottish Government (2022) Annual Procurement Report 2020-21 [Online](#). Accessed 14/3/22

²¹ NHS National Services Scotland [Online](#). Accessed 14/3/22

²² Scottish Government (2022) Annual Procurement Report 2020-21 [Online](#). Accessed 14/3/22

The Scottish Government is piloting community wealth building approaches by looking at public procurement within some places but there is still greater potential for using procurement as a tool to drive change. The requirements and criteria used to assess bids have a huge impact on the value from these contracts. In a similar way to organ donation now being opt out, all procurement contracts should have standard environmental and social policy criteria such as work placements or training opportunities and if an individual contract or procurement initiative opts out there should be a public duty to state the reason as a matter of public record. More could also be done to realise benefits and increase transparency throughout supply chains.

7. How should the Scottish Government target spending in its budget to achieve net zero targets?

The Climate Change Committee's 2021 report to the Scottish Parliament found that "Progress in delivering adaptation has stalled. Available evidence indicates that across most sectors progress in delivering adaptation has stagnated, although there are a limited number of areas where good progress is being made".²³

However we are mindful that the Scottish Government is not in control of all the elements within the net zero plan. A key element of the net zero transition calculations is the Acorn Carbon Capture and Storage (CCS) Project. This was in jeopardy last year due to the decision of the UK Government not to award funding to the project. This follows a similar decision in 2011 regarding a previous CCS project in Fife which also utilised existing infrastructure and would have meant that Scotland, and the UK, led the world in the development of this technology. The Scottish Government announced funding for the project in January 2022 which shows commitment to developing the technology but recognises that greater levels of co-investment and greater certainty for investment are critical to meet net zero targets.²⁴

Previously, EU funding also contributed to projects that would reduce emissions across Scotland. The replacement funding from the UK Government has very different priorities. This means there is even more pressure on the Scottish Government to ensure it maximises the impact of its spending to achieve net zero and to realise the potential economic gains.²⁵

²³Climate Change Committee. Progress reducing emissions in Scotland – 2021 Report to Parliament. 2021. [Online](#). Accessed 3/8/22

²⁴The Press and Journal, Scottish Government £80m for North East Acorn. 14/1/22 [Online](#). Accessed 5/8/22

²⁵ Scottish Government 2021 The economic impact of decarbonising heating in Scotland [Online](#). Accessed 5/8/22