

Finance and Public Administration Committee

4th meeting 2022 (Session 6), Tuesday 1
February 2022

Scottish Government's response to the Committee's report on the Scottish Budget 2022- 23

Background

1. The Committee is invited to take evidence from Kate Forbes MSP, Cabinet Secretary for Finance and the Economy, in relation to the Scottish Government's response to [the Committee's report on the Scottish Budget 2022-23](#), published on 21 January 2022. This evidence session will take place immediately before Stage 2 proceedings on the Budget (Scotland) Bill and is intended to inform this, and subsequent, consideration of the Bill, as well as providing an opportunity for the Committee to explore other related issues that have arisen in recent weeks.
2. The Stage 1 debate on the Bill took place on 27 January. The Scottish Government's response will be circulated to Members once received and published in advance of the evidence session on 1 February.

Report themes

3. Themes arising in the Committee's report on the Scottish Budget 2022-23 include:
 - continuing pressures on public finances, with the Scottish Fiscal Commission (SFC) highlighting that the Scottish Budget 2022-23 is 5.2% lower than in 2021-22 in real-terms,
 - the need for greater openness and transparency in relation to the presentation of headline figures in the budget, on all Covid allocations, and on whether Barnett consequentials constitute 'new' money or are reprofiled funds,
 - concern regarding the sources of £620 million in additional income provided for in the Scottish Budget 2022-23 and how this shortfall will be addressed if the funds do not materialise,
 - productivity, wage growth and labour market participation should be a particular focus for the Scottish Government, given evidence of Scotland lagging behind other areas of the UK in key indicators of economic performance,
 - particular concern regarding forecasts that income tax receipts will fall behind the block grant adjustment, with a shortfall of £190 million forecast in 2022-23, rising to a shortfall of £417 million by 2026-27,

- concerns regarding the downward pressure on other budget lines as a result of increasing costs of social security,
- the need for greater engagement between the two governments on the potential effects of tax policies set in the UK which interact with devolved tax policy,
- calls to streamline, and link up, the Scottish Government's various strategies and plans relating to the economy and fiscal sustainability, and to consider how the National Performance Framework could be more closely linked to budget planning¹.

Inter-governmental relations

4. Both the Committee's pre-budget report of November 2021 and its report on the Scottish Budget 2022-23 highlighted opportunities to improve communication and engagement between the UK and Scottish governments. The review of inter-governmental relations, announced by the UK Government, Scottish Government and Welsh Government [reported](#) on 13 January 2022. This review was commissioned in March 2018 by the Joint Ministerial Committee to ensure inter-governmental relations "are fit for purpose in light of the UK's exit from the EU."

5. The Review report explains that the new system for IGR will provide "a positive basis for productive relations, facilitating dialogue where views are aligned and resolution mechanisms where they are not. The review also introduces a new era for IGR with improved reporting on inter-governmental activity, providing greater transparency, accountability and scrutiny from each government's respective legislatures".

6. It sets out a new engagement structure as shown in this [recent SPICe blog](#), which comprises three tiers. Building on existing engagement through the Finance Ministers' Quadrilateral, there is specific provision for a Finance Inter-ministerial Standing Committee (F:ISC) which will consist of representatives of HM Treasury, together with the devolved governments' Finance Ministers, to consider finance and funding matters. This Committee will sit alongside another middle tier Inter-ministerial Standing Committee and have similar operating arrangements, as outlined in the F:ISC Terms of Reference in Annexe C of the Review report. It will be supported by a joint secretariat consisting of representatives of each minister's departments.

7. Transparency around IGR discussions and decisions was included as part of the recommendations of the Smith Commission, which stated that inter-governmental arrangements to support the devolution of further powers should be "underpinned by much stronger and more transparent parliamentary scrutiny". It was also a key focus of the Committee's predecessor.

8. Members will be aware that the [Scottish Parliament has a Written Agreement with the Scottish Government on Inter-governmental Relations](#), which seeks to

¹ Both recommendations are repeated in the Committee's report on the Scottish Budget 2022-23 as they were not addressed in the Scottish Governments' response to its pre-budget report published on 5 November 2021.

provide greater transparency around IGR by setting out “the information that the Scottish Government will, where appropriate, provide the Scottish Parliament with regard to its own participation in formal, ministerial level inter-governmental meetings, concordats, agreements and memorandums of understanding.” Since then, Ministers have written to the Committee updating it on the outcomes of such inter-governmental meetings. The potential impact of this Review report on the Scottish Parliament’s IGR agreement will be for the Constitution, Europe, External Affairs and Culture Committee, which has oversight of this Written Agreement, to consider.

9. Annexe C makes clear that “HM Treasury and the devolved administrations will publish joint communiqués setting out the meeting date, meeting attendees, and the high-level meeting agenda.” The IGR Secretariat also supports any requirements of individual governments in making their reports to their legislatures and will also prepare an annual report on inter-governmental activity. Understanding the extent to which these reporting requirements will support existing Scottish Government IGR reporting under the Written Agreement with the Scottish Parliament is an area that members may wish to explore.

10. The Review report also sets out dispute resolution mechanisms but notes that “disputes raised in relation to the Welsh and Scottish Governments’ fiscal frameworks will continue to be managed through the arrangements set out in their respective fiscal framework agreements.” Understanding how decisions are taken (and by whom) on finance-related disputes, and which dispute resolution process will be used, may also be an area for further consideration.

Scotwind Leasing

11. On 18 January 2022, the Cabinet Secretary for Net Zero, Energy and Transport updated Parliament on the outcome of the ScotWind leasing round. He said that it would “deliver around £700 million in revenues to the public purse for the initial awards alone”, explaining that these funds would be invested to “help tackle the twin crises in climate and biodiversity”. He added that, “in addition to those revenues, ScotWind promises to deliver billions more in rental revenues once projects become operational” and that developers have committed to invest at least £1 billion in the Scottish supply chain for every gigawatt generated via ScotWind projects. This may be an area of interest for the Committee to explore in more detail with the Cabinet Secretary.

Next steps

12. Stage 2 proceedings on the Budget (Scotland) Bill will take place immediately following the evidence session. The 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 2 February, and Stage 3 proceedings on the Budget (Scotland) Bill will follow on 10 February.

**Committee Clerks
January 2022**