



*The Royal Society
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Finance and Public Administration Committee
The Scottish Parliament
Edinburgh
EH99 1SP

The Royal Society of Edinburgh response to managing Scotland's public finances: A strategic approach.

Dear Finance and Public Administration Committee,

1. As its Vice President of Economy and Enterprise, I am writing on behalf of the Royal Society of Edinburgh (RSE), Scotland's National Academy and the Young Academy of Scotland (YAS). The RSE is delighted to respond to the Scottish Parliament Finance and Public Administration Committee's inquiry on Managing Scotland's Finances. We believe that it is encouraging and appropriate that the committee has set out to look for a strategic way to manage the public finances given the current constraints.
2. The RSE is well placed to provide advice and practical support to the government, with the breadth of expertise within our Fellowship, the Young Academy of Scotland (YAS), and our standing committees that help shape the policy advice we provide. To this end, this response has been informed by people with expertise in fiscal policy, the Scottish economy and public sector leadership.
3. One high-level observation we would make on this consultation exercise is that, in many cases, it asks the wrong questions. Its focus is too high level (e.g. asking questions where there is widespread agreement and indeed it is often difficult to disagree) or seeks guidance in areas where there are already well-established evidence bases for the government to engage with (e.g. Public Sector Reform with the Christie Commission). Rather than going back over well-tread territory, the government would be better advised to engage with the existing evidence and identify where it feels there is not sufficient evidence on which to inform policy and frame consultations around these. Otherwise, what will emerge from this is a reiteration of existing views and evidence rather than any genuinely new insights to guide future policy. Similarly, this consultation could identify concrete policy actions and seek insights about whether these are the policy initiatives that people think will be effective in achieving the objectives set.

Are these the right priorities for the Scottish Budget 2025-26 and, if not, where should the Scottish Government focus its attention?

4. The RSE welcomes the government's four priorities, in particular, we strongly agree that growing the economy will be the most crucial, as this will underpin the ability to address challenges within the other priorities. The RSE is currently looking at issues around productivity and notes the importance of boosting Scotland's productivity to enable economic growth. We advise that any road map to economic growth addresses the key issues that are causing the stagnation in productivity outlined in a recent RSE publication.
5. However, there are still questions about the policy levers that will be used within the government's strategies to address these priorities. For example, when we look at issues such as child poverty, there is a question of to what extent improving this is best achieved via increasing benefit payments, such as the successful Scottish Child Payment, or for example, addressing the barriers parents face in securing gainful employment. While policies such as child payment have certainly helped to address child poverty, concerns have been raised about the rising cost of social security, the sustainability of this with the pressure on public finances, and the increased tax pressure on middle-income earners. It is important that the government clearly communicates how they intend to address the key priorities, demonstrates what policy options are achievable and moves away from vague commitments.
6. The Government should accept that if they move forward with the outlined priorities, previous policies should be on the table when considering the funding allocation. This is particularly true for policies that have been shown to have a negligible impact and appear to be cost-ineffective. With the limited public resources available now and in the foreseeable future, funding may need to be reallocated from previous policy priorities to fully resource the new priorities. There is a need to invest in capacity and capability dedicated to leading the transformational change needed. We believe it is unrealistic to expect those delivering vital services in stretched organisations to have the capacity to plan and deliver transformation.
7. Related to the above is the issue of short-termism in public policy. In recent years there has been a tendency for policymakers across the UK to focus on short-term political objectives rather than developing policy levers that can address long-term challenges, such as the move to net-zero, inequality, etc. It is important that decisions are made to secure future change, even if they don't have the benefit of an immediate positive effect. Cross-party collaboration will be vital in addressing long-term issues.

Climate emergency

8. In terms of achieving economic growth through investment in green energy, the Climate Change Committee releases regular reports with recommendations for the government that can help to achieve this.¹ The RSE has also released a report which sets out some of the barriers to securing investment for the transition and some recommendations on how to encourage appropriate investment. Notably, we argue that consistent and predictable policy/regulation frameworks and public investment in infrastructure will be needed to secure private investment.²

¹ For more information see: <https://www.theccc.org.uk/publications/>

² The Royal Society of Edinburgh (2023) Securing the Economic and Environmental Benefits from the Transition to Net Zero. [online] Available at: <https://rse.org.uk/programme/advice-paper/securing-the-economic-and-environmental-benefits-from-the-transition-to-net-zero/>

Tax

9. The RSE recommends that the government consider all tax options as opposed to taking a narrow approach focusing only on income tax. It is important that the government ensures that tax and spending plans are clear and consistent with the pressures that Scotland faces in terms of its demand for services. It should avoid high-level narratives and include key details of the proposed changes in the tax system.
10. The RSE, alongside many others, has previously pointed to the need for the government to conduct a reform of Council Tax, including a property revaluation. We highlight the issue of geographical inequality within the current system, with Council taxpayers in the West generally overpaying Council Tax and those in the East underpaying.³
11. It is crucial that the government consider tax options that help to raise revenue and limit the impact of behavioural responses. As noted above, the RSE has previously advised against further pressure on income taxpayers. An example of this is the new 'advanced rate' of Scottish income tax, which has been scrutinised for further misaligning with UK tax policy and its negligible ability to raise revenue with around 60% of the yields being predicted to be lost through the behavioural response.⁴ The RSE fundamentally agrees with Scotland using its devolved powers to create a more progressive system, but the government should be thinking about other tax solutions that mitigate the negative impacts outlined above.
12. In addition, there should be careful consideration when it comes to providing tax subsidies. It is important that the costs and benefits are rigorously analysed and that the government takes action when the trade-offs or benefits are not worthwhile when compared to the costs.
13. The RSE notes that previous reviews, such as the Deaton Review, can provide useful insight into the general principles of taxation and excellent recommendations in the UK and, indeed, Scotland.⁵ The RSE advises the government to move forward (where possible) with the implementation of the recommendations from these reports.

Capital expenditure

14. The RSE advocates the principles of transparency and evidence-based decision making in respect of all spending decisions. We are not best placed to recommend specific investment priorities and limit our brief comments to these two principles:
 - Transparency: The Scottish Government is able to allocate capital budgets broadly speaking to investment in public physical infrastructure (economic, social and housing – new and capitalised maintenance), investment in public ICT, capitalised research and development and support to private sector investment. Along with portfolio allocations, it would be beneficial for stakeholders (including, we believe, parliamentarians, researchers and the delivery industries) to have transparency over these broad areas of allocation to better understand the nature of the Scottish Government's Capital Investment, deliver it efficiently and evaluate its effectiveness.

³ The Royal Society of Edinburgh (2023) A Fairer Council Tax [online] Available at: <https://rse.org.uk/programme/advice-paper/a-fairer-council-tax/>

⁴ Office for Budget Responsibility (2024) Income tax policy in the Scottish Budget 2024[online] available at: <https://obr.uk/box/income-tax-policy-in-the-scottish-budget-2024/>

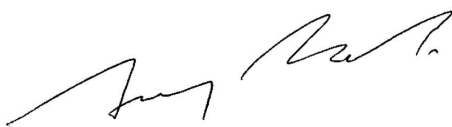
⁵ For more information see: <https://ifs.org.uk/inequality/> and <https://commonslibrary.parliament.uk/research-briefings/sn04744/>

- Evidence-Based: Capital investment is characterised by a relatively low number of binary investment decisions as compared with day-to-day spending. There is a clear role for politicians in these investment decisions and a role for robust business cases providing supporting analysis of the likely contribution of different prioritisation decisions within and between portfolios on the outcomes politicians have prioritised. All investments should include measurement and evaluation frameworks which must be followed through to improve the evidence base for future decisions.
- Productivity: carefully planned public sector investments will be crucial to help to achieve the increase in productivity growth that is critical for the future of our economy and the public finances.

Public service reform

15. The RSE notes that the recommendations from the Christie Commission are still relevant today and should be considered in relation to public service reform.⁶
16. We also note that there has been more growth in public sector pay at the lower end of the workplace scale than there has been at the top.⁷ The RSE was informed that this has perhaps been characterised by an unwillingness to hire those with specific and required expertise. The public sector pay policy should align with the market value of the skills needed to deliver transformation change.
17. This leads us to another issue - the implementation gap. As mentioned above, many of the key issues, such as taxation, public service reform, economic growth, and the transition to net zero, have been widely discussed in academic and government strategies/commissioned reports. Most reports have now set out key recommendations. However, many of these recommendations and government strategies have yet to be realised, despite many experts agreeing on the potential positive outcomes. A key question is whether there is capacity and resources within the government to see these plans and recommendations implemented.
18. The RSE is continually working on the delivery of public policy and would be open to hosting further discussions around the implementation gap and providing objective, evidence-based and constructive advice to policymakers. If you have any enquiries about this advice paper or if you wish to engage with the RSE, contact Stephanie Webb, Policy Advice Officer (swebb@therse.org.uk).

Yours sincerely,



Professor Jeremy Peat FRSE

RSE Vice President Economy and Enterprise

⁶ For more information, see:

<https://www.gov.scot/binaries/content/documents/govscot/publications/independent-report/2011/06/commission-future-delivery-public-services/documents/0118638-pdf/0118638-pdf/govscot%3Adocument/0118638.pdf>

⁷ Cribb, J. and O'Brien, L. (2024) Recent trends in public sector pay [online] Available at:

<https://ifs.org.uk/publications/recent-trends-public-sector-pay#:~:text=by%20late%202023,-3.%,%25%20in%20real%20terms%2C%20respectively.>