



OFFICIAL REPORT
AITHISG OIFIGEIL

Finance and Public Administration Committee

Tuesday 14 September 2021

Session 6



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Tuesday 14 September 2021

CONTENTS

INTERESTS.....	Col. 1
PRE-BUDGET SCRUTINY 2022-23: PUBLIC FINANCES AND THE IMPACT OF COVID-19	2

FINANCE AND PUBLIC ADMINISTRATION COMMITTEE
4th Meeting 2021, Session 6

CONVENER

*Kenneth Gibson (Cunninghame North) (SNP)

DEPUTY CONVENER

*Daniel Johnson (Edinburgh Southern) (Lab)

COMMITTEE MEMBERS

*Ross Greer (West Scotland) (Green)

*Douglas Lumsden (North East Scotland) (Con)

*John Mason (Glasgow Shettleston) (SNP)

*Liz Smith (Mid Scotland and Fife) (Con)

*Michelle Thomson (Falkirk East) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

David Eiser (Fraser of Allander Institute)

Councillor Gail Macgregor (Convention of Scottish Local Authorities)

Susan Murray (David Hume Institute)

Ray Perman (Royal Society of Edinburgh)

Alan Russell (Chartered Institute of Public Finance and Accountancy)

Linda Somerville (Scottish Trades Union Congress)

CLERK TO THE COMMITTEE

Joanne McNaughton

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament
Finance and Public
Administration Committee

Tuesday 14 September 2021

[The Convener opened the meeting at 09:31]

Interests

The Convener (Kenneth Gibson): Good morning and welcome to the fourth meeting in 2021 of the Finance and Public Administration Committee.

Agenda item 1 is to invite Ross Greer to declare any relevant interests.

Ross Greer (West Scotland) (Green): I have no relevant interests to declare.

The Convener: Thank you for your declaration, and welcome to the committee. I look forward to working with you.

**Pre-budget Scrutiny 2022-23:
Public Finances and the Impact
of Covid-19**

09:32

The Convener: Item 2 is pre-budget scrutiny of Scotland's public finances in 2022-23 and the impact of Covid-19.

We will hear from two panels of witnesses. For our first session, we are joined remotely by Councillor Gail Macgregor, resources spokesperson, Convention of Scottish Local Authorities; Alan Russell, chair, Chartered Institute of Public Finance and Accountancy directors of finance section; and Linda Somerville, deputy general secretary for policy, equality and political liaison, Scottish Trades Union Congress.

I intend to allow around 75 minutes for the session. Members have received a paper containing background information, along with written submissions from our witnesses. Given that the witnesses are joining us remotely, if members wish to ask a question of a specific witness, I ask them to make that clear, and to allow a brief pause to let our broadcasting team activate their microphone.

I aim to give all witnesses a chance to respond to questions, but if any of you wish to respond to a specific point, please indicate to me and the clerks by raising your hand and typing R into the chat function of the BlueJeans software package.

I welcome our witnesses to the meeting. We will start by asking the COSLA and CIPFA representatives about key points in their joint submission, although Linda Somerville can, of course, add her thoughts as well. The submission states that:

“significant levels of investment ... must not come at the expense of critical services which Local Government needs to ... provide in recovery and tackling poverty and inequality.”

You also talk about the need to have a fair settlement for local government. What do you consider to be fair funding for local government? The Scottish Government would take the view that fair funding is currently deliverable, so it would be helpful if you could advise us in detail what you mean by that, particularly with regard to the volume of the resource that you believe should be allocated to local government.

Councillor Gail Macgregor (COSLA): Good morning, and thank you for inviting me along. Convener, I think that you and I have met on a committee previously, and we probably had similar conversations. The question exposes the on-going complications of local government funding,

including the funding that comes from the Scottish Government and our ability to raise our own funding.

During the past 18 months, a huge spotlight has been shone on local government, its function and where we deliver services that are critical to our communities. Notwithstanding that, we have a vast array of services that we deliver every year, as you know, and they cut across many different areas. Within that, we must also deliver on Scottish Government policy priorities. Those are usually set in conjunction with COSLA. They are very good priorities and policies, but local government is not given a lot of flexibility to adapt locally within those policy areas.

We need to secure our core budget—that is key. That will enable us to deliver our core services year on year. However, we also need to ensure that, over and above that, any ring-fenced projects or policies are properly funded and then included in core budgets, and that any top-ups are fully funded by the Scottish Government.

In recent years, one problem that we have had is the shift towards more ring fencing. Again, the policies are very good, and the policies on early learning and childcare are a prime example of where that has happened. The quantum for ELC funding was agreed on an actual cost basis—the funding was to fully cover the costs of delivery of that service. However, as time goes on, the service has expanded, which erodes the core funding and makes it more difficult to continue to deliver at the 1,140 hours stage.

The key message from local government to the Scottish Government is to fund our core as it should be funded, and then ensure that all additional policy priorities are fully funded at source and going forward. That would put us on a more stable footing. I suspect that we might talk more about the fiscal framework during the meeting, so I will leave it at that. Alan Russell might want to come in.

Alan Russell (CIPFA Directors of Finance Section): Looking at the financial settlements over the past number of years provides some context for the committee. I am sure that the committee has seen the Scottish Parliament information centre's analysis of local government settlements and how they have changed since 2013-14, compared with the change in resources at Scottish Government budget level. It showed real-terms growth in Scottish Government resources of about 2 per cent, in contrast to a real-terms reduction in local government resources of about 2 per cent during the same period. As much as the analysis shows that divergence, I think that it significantly underplays the level of pressure that councils have experienced over that period. It focuses on the headline figures, which is understandable in so far

as SPICe is looking to make that particular comparison.

However, if SPICe looked at the 2021-22 settlement, it would see that the £11 billion or so local government budget includes about £1 billion linked to early learning and childcare expansion, pupil equity funding—which was passed on to schools—and about £370 million linked to the council tax freeze. Those are areas of expansion of and spend in the services that local governments are to deliver in that period, or, they relate to the council tax freeze grant that is linked to compensation for maintaining the freeze during that period.

If you adjust for those areas of expansion of services and then compare the position to 2013-14, the real-terms reduction in grant is something closer to 12 to 15 per cent over that period. That is the level of challenge that councils have had to face. Indeed, during that period—

The Convener: I am sorry, but I have to interrupt you because of time limitations and the need to get in all witnesses during this session. I do not want to interrupt your flow too much, but I think that we fully understand the position that you are articulating. The issue is what do we do about it.

For example, we have been advised by the Parliament's financial scrutiny unit that the real-terms increase in budget is likely to be 2 per cent across the board. Obviously, therefore, difficult decisions have to be made on the public finances. If additional resources were to be provided to local government—we do not know whether we will get any additional moneys related to Covid in the future—where should that money come from? Should there be additional taxation, or should money be shifted from other budgets? If there is additional taxation, who should pay, and how much should they pay?

Everyone who comes to the committee—we had a number of witnesses last week—suggests additional funding for their particular area of interest, but we are trying to find a balance. If people say that there should be additional funding, we need to know what additional resource is required, given the financial situation that we are in, otherwise we will not get any further forward.

Alan Russell: Okay—I will try to be brief, then. The question of taxation is probably not one for me to respond to directly—taxation levels, and how they may be used to direct additional funding, are more down to political judgment.

The local government services that have been especially critical, and continue to be so, in the Covid response are those that have been the most challenged and squeezed financially over the past number of years. From a local government

perspective, a funding settlement that provides the ability to invest in, maintain and enhance those services is of particular importance.

Services that focus on employment, housing, green space, physical activity, mental health and so on are all recognised as being critical in supporting the nation's health and wellbeing. Indeed, they are recognised as being very worth while in terms of value for money, as investments that reduce pressures on other areas such as the health sector. The ability to direct resources to local government to invest in those services that have been most squeezed is important, as they have been shown to relieve pressure in other areas of the public sector that are obviously under on-going pressure from the pandemic.

The ability to view health and wellbeing in a much wider sense should play significantly into future budget considerations. That area of funding is well recognised as paying back significant dividends and returning health and economic benefits that far outweigh the up-front investment.

The Convener: Linda Somerville, your submission talks about the

“need for restorative pay settlements”;

the

“need to massively expand publicly owned housing”;

and the need for

“a street-by-street home retrofitting programme”.

It also mentions a number of other issues, such as Government support for

“providing good quality, unionised jobs.”

Have any costings gone into that? As I mentioned a few minutes ago, there are obviously significant pressures on the budget. You talk about taxation in your submission, so perhaps you can expand on that in your response.

Linda Somerville (Scottish Trades Union Congress): Thank you for the opportunity to come along today. I go back to Gail Macgregor's points about where we are in terms of local authorities and funding. The pressures that local authorities have been under are clearly documented. However, when we talk about local authorities, we are talking about not only the structures but the people who work there and the pressures that they experience.

That is why the STUC submission has—quite rightly—focused on the workers and the workforce in local authorities, and the need to take action in that regard. While local councils have had a shortage of funding, that comes through to workers. It was mentioned that the funding shortfall might equate to between 12 and 15 per

cent, which correlates with the amount in wages that local authority workers have lost in real terms.

Although we want to think about what we can do as we come out of the pandemic and what new ideas we might need—we are talking about getting new ideas on the table, rather than just recycling what has been around—we must also think about what the consequences are for people working in local government, who have taken the strain during the pandemic. They will continue to take the strain, because we face multiyear issues that we will continue to have to deal with. Even if the health crisis resolves itself, as we hope that it will, the economic crisis on the ground and the stresses of those who work to deliver local government services in our communities will not go away easily.

09:45

An idea that we have looked at in the past is one that we previously did some work on with the Institute for Public Policy Research. Scotland wants to think of itself as a fair work nation. How do we take forward the concept of fair work? How do we embed that not just in the public sector but throughout our businesses? A fair work supplement paid for by employers could generate additional revenue. The IPPR has provided some costings on that, which we could share with the committee. There are ideas about conditionality for public sector funding and what that would mean for companies that often just extract profit from our public services. When it comes to what they deliver, they could contribute better and contribute more.

The Convener: Thank you for that.

Gail Macgregor mentioned the fiscal framework. In paragraph 28 of your submission, you say:

“The devolution of tax powers to the Scottish Parliament has introduced a higher level of risk and uncertainty around the assumptions required to deliver a Budget ... Fundamentally the relative difference in earnings growth and the composition of taxpayers in Scotland compared to the rest of the UK, which is a key feature of the current block grant adjustment mechanism, suggests an inherent unfairness in Scotland's disfavour.”

How would you rebalance that? We will be deliberating on that issue over the weeks and months ahead.

Councillor Macgregor: A lot of work is under way on the fiscal framework around the relationship not only between the Scottish Government and local government, but between the Scottish Government and the United Kingdom Government. In many ways, our asks of the Scottish Government are very similar to its asks of the UK Government. The key point is to ensure that we can raise as much money as possible from

various sources in Scotland to assist our communities. The aim of the work that we are doing on the fiscal framework is to ensure that the package that comes to local government that enables us to spend in our communities can be topped up locally. Examples of such sources of funding are planning fees and building control fees, which could be levied at a higher level in some areas to bring in additional income.

I think that the whole question of fair funding in Scotland is one that the Scottish Government and local government would probably be fairly joined up on. Essentially, we are looking for the same things—the ability to raise additional funding where required and the flexibility to spend where spending is absolutely needed. Work will be done on that between local government and the Scottish Government, and between the Scottish Government and the UK Government, over the coming months. That work was put in abeyance because of Covid. It is a very thorough piece of work, but it probably would have been completed by now.

Obviously, we have the transient visitor levy, which passed through Parliament in the previous parliamentary session. It has not yet been signed off, but it would be another measure that would give local government the ability to raise income locally.

The key message from us is that what we want from the Scottish Government is essentially the same as what the Scottish Government wants from the UK Government: the flexibility to spend and raise money locally, where we can.

The Convener: Yes. However, you said in your submission:

“The devolution of tax powers to the Scottish Parliament has introduced a higher level of risk and uncertainty around the assumptions required to deliver a Budget.”

Surely the same would apply if there was greater devolution of powers to fundraise to local authorities. Surely increasing planning and building control fees, which could act as a deterrent to lodging planning applications and submitting plans to building control, would not bring in significant sums of money for local government.

Councillor Macgregor: No, such increases would not bring in significant amounts of money, but they would provide a buffer at local level. As I am sure that you are aware, those are only examples of measures that we are considering in the discussions on the fiscal framework. At the moment, nothing is off the table—everything is on the table.

The key message is that, if the cost of delivering a basic service is not being covered, we should

have the flexibility to raise additional funding locally. We are discussing that with Government.

Alan Russell might have some examples of other areas that we are looking at.

Alan Russell: I will broadly reiterate what Gail Macgregor said. A range of areas were discussed, such as planning and building control fees. There is a recognition that there can be a disconnect between the cost of dealing with large developments and applications, and the associated fees. We also looked at the basket of local levers that councils could have at their disposal, such as a transient visitor levy, which was previously on the table. We have also explored non-domestic rates, which currently operate on a national basis, and examined whether they could in future be part of an increasing number of levers that are available to councils to support local priorities.

The Convener: Linda Somerville, the STUC has said that it believes in progressively increasing the overall tax take of Government and local government. How far do you wish to advance that? Have you looked at what the behavioural impact would be? For example, about 30 per cent of income tax is paid by about 1 per cent of taxpayers, so what would be the behavioural impact if our higher tax levels were significantly higher than those south of the border or elsewhere, given that capital is often mobile?

Linda Somerville: One of the areas that we looked at is blanket tax cuts for businesses, such as they have just now. However, we do not think that that is an efficient tax method for creating jobs and promoting fair work, which is what we want to consider and what we think the committee should take forward. We need to think about job creation in the context of our fair work framework, and we do not think that having blanket tax cuts for businesses through rates relief is an efficient way of doing that just now. We also know that some of the tax incentives for businesses do not always change business behaviour, so we need to look at other ways of doing that.

In terms of progressive tax rates, there has to be more thought about wealth taxes. We must look at what we can do through raising our own revenues if we are to have a post-Covid recovery and the huge investment that that will need. If we want to be a net zero nation, we must think about how we can pay for that by taxing businesses and using income tax wealth taxes. There has to be significant change in how we structure our economy if we are to address the huge climate crisis, and we have an opportunity with this budget and successive budgets to set the direction that we want for that. That is why we think it is important to consider increasing tax through wealth taxes as well as through business taxes.

The Convener: Yes, but have you looked at what the impact on behaviour would be of increasing those taxes? Obviously, if someone faces a significantly higher tax burden in Scotland than they would face elsewhere, they might decide to operate their business from somewhere else and we would then not get their income tax. That is what I was asking about. There have been studies on behavioural impacts, and I just wonder what level of taxation you think is the optimum in that regard.

Linda Somerville: I do not have an amount for an optimum level. However, in looking at studies on that recently, we found that the International Monetary Fund thinks that there is less risk and more benefit in having higher taxes. The debate around behaviours is therefore changing and we should consider that.

Daniel Johnson (Edinburgh Southern) (Lab): My questions follow on from what Gail Macgregor said about the level of funding for local authorities. First, on COSLA's previous budget submission, you stated that there would be a £500 million shortfall after the budget revisions. Was that the case? If so, I would be interested to know what the consequences were, given what you have said about the difficulties that local authorities face in delivering core, statutory services on the basis of current funding.

Secondly, given that that budget process was undertaken midway through the pandemic and that many of the services that councils provide are fundamental, safety-net services, what is your current assessment of the increase in demand and, therefore, the current shortfall that local government faces?

Councillor Macgregor: Last year's budget was particularly challenging, but we had the Barnett consequential that flowed to Scotland and we were able to plug a fair amount of the gap that we were finding in the local government budget. However, one of the big pressures that we had in the financial year—this maybe ties in with the convener's question as well—was due to loss of income. That exposed how much income councils generate through community facilities and other services that they deliver. The loss of income was very significant. The additional funding that came due to Covid helped to plug some of that gap but not all of it.

Some 70 per cent of our budget is spent on our workforce, and we were not in a position to furlough staff—we had to continue to pay them. That was absolutely right, and the staff who continued to work on the front line did a tremendous job, but that is an on-going pressure on local government due to the Covid pandemic. We have had to continue with business as usual while doing everything else over and above that,

and the shortfall has been exacerbated because we have only single-year budgets. We do not have the stability of multi-year budgets, which would allow us to move things around ever so slightly.

Like the rest of the public sector, we need to manage our risk, but our ability to do that has been pressured over the past 19 months and we are certainly not out of the woods. We are going to be huge contributors to economic recovery and to recovery in our communities, but, if we start from a financially lower base than normal, that will exacerbate things even further. Alan Russell might have some examples.

Daniel Johnson: I wonder whether you can identify any particular consequences. Are there areas of provision that you think are particularly exposed or that have suffered because of the funding shortfall?

Councillor Macgregor: Alan Russell is probably in a better position to answer that, because he has modelling from various councils.

Alan Russell: I circle back to what I said in my opening remarks about the squeeze on Government grant coming to local government. Coupled with that, there has been conditionality throughout the period, with funding being directed to social care and conditions linked to, for example, education and teacher numbers. Those two areas represent broadly two thirds of councils' budgets. The other areas of council services, which support communities, employability, transport infrastructure and so on, have had to shoulder the burden of managing the financial challenges.

10:00

I suppose that it is the services that support communities that have suffered the most over the period, even though, in many respects, they have been the most critical part of the response to Covid by supporting the most disadvantaged communities, which have suffered disproportionately throughout the pandemic. The funding that has been provided by the Government during the pandemic has certainly helped and has allowed councils to bolster such services, but the demands of supporting our communities as we move beyond the pandemic are not going away. Many of the problems that a light has been shone on are going to continue, and individuals in those communities will have very significant demands and needs that local authorities will have to meet. The areas that will present really significant challenges to councils are those that have been squeezed most over the past number of years.

Daniel Johnson: With regard to the ring-fenced funding that you are receiving, Gail Macgregor

highlighted the commitment to 1,140 hours of free childcare, which we all agree with. Can you give us a bit more detail and clarification on that? Are you saying that the funding that you are getting for that is not sufficient now and will likely not be sufficient in years to come? If so, is the implication that local authorities are having to top up the funding to deliver on the 1,140 hours commitment?

Councillor Macgregor: I was using early learning and childcare as an example, but it is a very good one. As I have said, there was a roll-out, with an initial 500 hours being delivered and then provision being expanded. Every time there is an expansion of ring-fenced funding, that additional funding comes; however, councils are already funding that initial 500 hours of free early learning and childcare from their core budget. If that core budget erodes over time—due to, say, a 2 per cent cut—that will chip away at the 500 hours that we were delivering three or four years ago. Although any additionality for expanding provision to 1,140 hours is welcome, things begin to reduce when that money becomes core funding.

We therefore need an absolute commitment that our base budget will be maintained, with anything ring fenced over and above that for what, as you say, is a very good policy area and priority continuing to be fully funded and ultimately becoming baselined. Early learning and childcare is, as I have said, a good example, but it is a difficult area. We are about to go into discussions about our early learning and childcare budget not just for next year but for the years ahead, and one of the difficulties is that, although it might look as though we have received more funding for that area than we require, we have not actually had a normal year of delivering the 1,140 hours and the situation has been exacerbated by Covid. As a result, if we are to continue to deliver the 1,140 hours, we must ensure that we have the funding to do so. The situation affects not just large bits of money such as the ELC budget but other areas such as period poverty. The funding that we are getting for that needs to be maintained at the current level, too.

There are also huge reporting mechanisms to deal with. Of course, it is absolutely right to have such mechanisms for early learning and childcare, but the scrutiny and monitoring of smaller, ring-fenced pots is disproportionate and not commensurate, and it takes up a massive amount of resource in councils. Any ring fencing will always come with additional cost and pressure.

Daniel Johnson: I—and, I am sure, the rest of the committee—would find it helpful to see some data on that. If what you are saying is the case, one would expect the proportion of the total funding for things that are not ring fenced to

shrink. We would find any analysis that brings out that sort of detail very useful.

In the interests of time, I will move on. My next question is for Linda Somerville. Before asking it, I remind the committee of my entry in the register of members' interests, which states that I am a member of the Union of Shop, Distributive and Allied Workers—USDAW.

We are all very much aware that the furlough scheme is coming to an end at the end of this month, but we seem to be seeing some quite contradictory data. We have seen low or reducing levels of unemployment in recent months, but we also know that there are fewer jobs in the economy than there were pre-pandemic. According to the latest set of numbers, more than 100,000 people in Scotland are still on furlough. Does the STUC believe that enough is being done to ensure that there are jobs for people coming off furlough or to address any imbalances in the labour market that we may be about to encounter in the autumn?

Linda Somerville: No. We think that there are a number of areas in which we could make significant changes in the labour market at this time. We have just done some research, which I can make available to the committee, on some of the structural changes that have taken place in the labour market. We have seen a shift in a variety of areas due to the contraction in a number of sectors, with an expansion in other sectors. There has been an increase in the number of jobs in some sectors, but those tend to involve logistics, distribution and delivery services—areas in which the work is not quality work and in which people are often underemployed. By that I mean that they do not get the number of hours that they might need to make up the wage that they require from the work.

There are quite a lot of shifts that we are potentially still to see within the labour market. Accommodation, food and hospitality was obviously the area in which the furlough scheme was used most, and much of that sector has opened up again but not to its full extent. There are also concerns about the effects that Brexit has had on staffing in that area, and we are still to see how the changes that are to come in the labour market will materialise with the end of furlough. We do know, however, that it was lower-paid workers who were more likely to end up on furlough. Young people and women—particularly those in lower-paid jobs and those who work part time—were more likely to end up on furlough, as were black and minority ethnic workers.

A variety of inequalities in the labour market have been exposed by that, which is part of the reason why we think that this budget and future budgets present an opportunity. There is,

absolutely, a cost, but some of that cost would be returned through income tax anyway, through increased wages. This budget brings an opportunity to address some of the concerns about in-work poverty and low pay by taking forward increases in public sector pay, as many of the workers I have just mentioned are directly employed through the public sector.

Daniel Johnson: I take your point about the public sector, but a significant number of people—if not most people—who have been on furlough are employed by the private sector. What policy interventions would you like to see? Would they involve skills and retraining or perhaps job guarantee schemes? What interventions would the STUC like to take place to preserve private sector employment?

Linda Somerville: More can probably be done around youth guarantees and youth training schemes. Investment in further education is also required. One university has already said that it is seeking to base some of its skills base around its local economy. Work needs to be done on investment to align our skills.

The other work is on conditionality for those in receipt of public funding who are in the private sector. We could do more to ensure that fair work principles—for example, payment of the real living wage—are met through conditionality. That would have an impact on our local economies and on those in receipt of that additional wage.

John Mason (Glasgow Shettleston) (SNP): I am interested in paragraph 22 of the COSLA-CIPFA paper, which says that the Scottish child payment

“is an example of an intervention that addresses a symptom of poverty but not the cause.”

There has been a lot of support for the Scottish child payment, as well as for doubling or quadrupling it. If you are saying that we could use that money better, how do you think that we could do so?

Councillor Macgregor: I do not think that anybody disputes the principle behind the £10 payment, and a lot of payments during the Covid period have helped to top up the incomes of low-income families and people who are very vulnerable. However, in our submission, we have tried to give the sense that simply giving people money will not fully assist them. It might help them to get over a hump in one week or month, but we need to get to the root cause of the inequality so that the support is in place—within the household, the school and other services—to ensure better outcomes for those families going forward. Money is a very helpful sticking plaster but it does not get to the root cause of the inequality.

When it comes to supporting families’ health and wellbeing, we look at the quality of housing, education and employment, and we ensure that families are assisted with services that will help to enrich their lives. The key message is that, although it is perhaps beneficial in the short term to give a family some additional income, that does not necessarily get them the key support that they require. We know our communities, where to find people and how to assist them, and, throughout the Covid period, we found that interventions that really helped a family on a day-to-day basis did not necessarily involve cash—for instance, a single mum might have required a free school meal to be taken to her house because she was shielding. It is about bringing that holistic, entire-family approach to the services that we deliver.

John Mason: If a family is short of food or cannot afford to heat their house, the cash is pretty helpful, is it not?

Councillor Macgregor: Yes, absolutely, and that is what I said. It is useful in the short term. However, it is possibly more useful to ensure that people within that family are empowered and assisted into better employment and encouraged to utilise other services in their communities that can assist them. Essentially, we need to empower them. The key message from me is that we need to support families, parents and households to make the very best of their lives and have the best chances in life, instead of always just providing a sticking plaster for a month or a year.

John Mason: I will move on to another topic. There is a theme in your written submission about flexibility, which has already been mentioned. The problem for the Scottish Parliament is that, if there is flexibility and, say, Orkney does one thing and Glasgow does something else, we are immediately accused of a postcode lottery, even though it is local decision making. Can you comment on that or give us advice on how we tackle that problem?

Councillor Macgregor: As you will be aware, we have 32 different local authority areas in Scotland with very different needs, which cut across all services. Whether it be social care, education or employability, we have 32 different models of what is required in a local authority. I have huge sympathy with parliamentarians who, as John Mason said, are accused of postcode lotteries within policy. However, the fundamental issue is that the decisions need to be made locally to ensure that a particular local community gets exactly what it needs. As I said, the needs of central Glasgow are very different from those of Selkirk. The fundamental premise of local government is that we know our communities and we can deliver a more bespoke service, whatever

that might be, by taking into consideration local needs and understanding our communities.

10:15

John Mason: My next question is for all three witnesses and is about where we are going with council tax. Both of the written submissions make the point that we have been planning for quite a long time to replace council tax. Should we adapt council tax, or should we replace it and, if so, with what?

Linda Somerville: The failings of council tax are well documented. There are a number of options for different tax schemes. There is an opportunity for us to think about different options for how we can raise revenue locally. There are different ways in which we could align our policies and aspirations with the need to bring in funding.

John Mason: Does COSLA or CIPFA have any comments on that?

Councillor Macgregor: It is a good question. We previously had a cross-party working group in Parliament, which was co-chaired by Ms Forbes and me and which, for about 18 months, considered a replacement for council tax. We made good progress and began narrowing down a number of options that could be taken forward through the parliamentary process. Unfortunately, due to Covid, that work stopped. It has not been picked up again, but the premise is that we are looking at a replacement for council tax. We must identify something that is much fairer and more progressive.

I hope that the work between local government and the Scottish Government to co-produce a replacement will continue in a good spirit. In the meantime, we want to ensure that any decisions about rises in or freezes of council tax can be made locally. COSLA has a long-held principle that we should be able to determine council tax levels locally.

John Mason: My next question is on the fiscal framework and may be for Mr Russell. When I was a councillor, we had the prudential framework for borrowing, which I thought was a good idea. Councils could borrow what they could afford, and there was no arbitrary limit. Does that still work for local authorities? Could it also work at the Scottish level?

Alan Russell: I concur with your view. The prudential regime has been important for local government since 2004. It has been key to councils' ability to make a far higher level of investment in capital infrastructure than would otherwise have been possible.

I can see how attractive it would be for the Government to consider having a scheme of that

nature operating at a national level. I am sure that the Scottish Government would like to discuss that with the UK Government as they look at the future fiscal framework. In any scheme such as the prudential framework, the key issue is having greater flexibility for investment while being able to clearly demonstrate the long-term affordability and sustainability of such borrowing and investment. That must be taken into account and there must be a long-term view of the cost of the borrowing. The potential framework is critical in allowing local government to invest affordably and sustainably.

Ross Greer: My first question is probably for Gail Macgregor. Your submission makes what sounds like an entirely sensible point about the advantage if the review of the UK's fiscal framework was to include consideration of the local government fiscal framework that is being developed. However, that begs a question of sequencing. I apologise if the information is already in the public domain and I should know it but, in the first instance, what timescale are you working to with the development of the local government fiscal framework?

Councillor Macgregor: We have been doing a lot of work on the fiscal framework for about two years now, although Covid unfortunately put the stoppers on that.

During the past few months, we have convened a cross-party working group in COSLA. It has been meeting regularly and is looking at the different strands that we need to pull together around what a fiscal framework could look like. We will report to leaders on that at the end of September, and we will then take the discussions to the Scottish Government.

I am aware that the Scottish Government is discussing a UK fiscal framework and I believe that there will be an independent report on that towards the end of the year, and then a review as we get into next year. I hope that we will be able to dovetail with that.

In our ideas about a fiscal framework, we are looking at some low-hanging fruit that we could reach in the short term, and then there will be medium-term and longer-term strategy planning to look at issues such as a council tax replacement. We hope to have done the initial work within the next 12 months, and for the medium to longer-term work, which might require changes in legislation and to go through the parliamentary process, we are probably looking at five years.

Ross Greer: To clarify, is the work that is being done purely internal to COSLA and the cross-party discussions that you talked about? Have any interim discussions been held with the Scottish Government at this point?

Councillor Macgregor: I am in on-going discussions with Ms Forbes; they are usually jovial and constructive. We have had initial discussions about a fiscal framework. As I said, we started the work approximately two years ago, and the Government is essentially signed up to working with us to create a fiscal framework for local government. I have to say that a lot of our asks of the Scottish Government are similar to the Scottish Government's asks of the UK Government, so I hope that we can work constructively across parties and Government to achieve a better fiscal framework.

Ross Greer: My next question is about local government reserves, so it might be best directed to Alan Russell in the first instance. Have council reserves been disproportionately drawn down since the most recent set of numbers that I have seen, which were in the 2019-20 Audit Scotland paper? Your submission makes a point about the disproportionate impact of the pandemic on communities, individuals and families who were already disadvantaged, particularly those who were socioeconomically disadvantaged. Have the local authorities that have higher rates of socioeconomic deprivation had a disproportionately higher need to draw down from their reserves?

Alan Russell: Prior to the pandemic, a number of councils were certainly coming under increased pressure and beginning to rely on their reserves as part of addressing the balance of their budget. You are right that, at that point, Audit Scotland showed an increased interest in monitoring the position of individual local authorities and when they were getting to the point at which sustainability was a concern.

During the pandemic, we moved into a new financial year and there has been an increase in reserves, but that is linked to Covid-related grants being provided by the Scottish Government during the closing months of the previous financial year. I think that I can speak on behalf of all my colleagues across the country when I say that there is a clear expectation that those Covid-related reserves will be fully deployed during this year and next as the recovery from Covid is implemented by councils.

Therefore, I expect that reserves will be significantly depleted as we move through this financial year. Audit Scotland will continue to monitor closely the underlying unallocated reserves position of local authorities and the extent to which reserves are coming under pressure so that councils can balance budgets. A reliance on reserves to support on-going expenditure is an early warning that a council is starting to experience much greater financial difficulties. Members will appreciate that councils

can visit reserves only once; reserves are not recurring resources, so councils do not want to rely on them to support core services.

Ross Greer: There was an allocation of £45 million to local authorities a bit earlier this year—I cannot remember exactly when, but it was certainly in the previous financial year—to bring additional resources such as teachers and support staff into schools, as a result of Covid. Since then, there has been a lot of political debate about the need to move teachers who are on temporary contracts on to permanent contracts. Have you had any indication that the £45 million will be baselined into the local government settlement in future? It is hard to see how we can move folk on temporary contracts that were funded from a one-off pot on to permanent contracts if the money is not baselined into the settlement.

Alan Russell: The Government has confirmed that what was temporary funding to support teachers' employment will be mainlined as we move into the next financial year. For me, again, the issue demonstrates the importance of seeing how money flows into and is baselined in the local government settlement. That money has been clearly identified as being to support investment in teachers over a period, to allow councils to look at permanent contracts for the additional teachers who have been taken on. It is important that the funding stream is identified in the settlement and not consolidated into the core grant for local government, so that how it is baselined is transparent and people understand how it relates to what is happening to the core grant as we move between the two financial years.

Michelle Thomson (Falkirk East) (SNP): My first question is quite technical and follows on from our discussion about recognising the whole fiscal landscape. I am genuinely interested in the service concession approach. The joint submission states:

"This is not merely an accounting exercise—it has genuine implications for funding Local Government services into the future".

It goes on to highlight opportunities in that regard, such as the ability to "invest in assets" and "deliver on net zero". If those are the opportunities, what are the risks of the approach?

Secondly, are your concerns about the Scottish Government's review to do with the fact that there is a review, or are you concerned about the timescale, because you would like to see a clear outcome sooner rather than later? I suspect that my question is for Alan Russell initially, but Gail Macgregor might want to come in, too.

Alan Russell: Service concession is linked to the education public-private partnership contracts that were signed some time ago. I will try to keep this as simple as possible for committee members

and not get technical. The underlying repayment that is associated with the asset—the school—has been tied to the service concession. In most cases, there was a 25 to 30-year contract. This particular issue has been about the opportunity to make accounting adjustments that will allow the costs of those school assets to be recognised and, in effect, run through council revenue budgets over the life of the asset: the schools involved will have a useful life of somewhere between 40 and 50 years, which is a much longer period. In effect, under the existing arrangement, the cost of the assets is repaid over a much shorter period.

10:30

An opportunity exists to correct that anomaly and create, in the first instance, an adjustment that would free up resources, depending on how long contracts have been running. Potentially, a significant amount of initial resources could be directed towards further investment to support the economic recovery and smooth the future costs of paying for those assets over their remaining life, which could be anywhere up to 30 years, depending on where a contract is in its life cycle.

That is a particular opportunity, and it does not actually cost any cash, if that makes sense. The contract and the cash payments would still run for the contractors over the original contract period, but how it is accounted for over the long term would be different. In some respects, the opportunity is a free good that aligns the spreading of the costs of assets over the life of the assets. In a way, that is fairer for the different generations that will enjoy them. In addition, the issue has led to a wider capital review of the existing arrangements that are used to account for capital investment in local government.

I suppose that there would be a question from the Government about the use of what is called statutory mitigation in the local government sector. At present, local government complies fully with accounting standards in how we manage and treat our assets and how we depreciate those assets over their lifetimes. In addition to the accounting position, local government has a statutory footing that allows councils to manage the funding of assets over their life on an annuity basis, which, similarly to a domestic mortgage, allows a flat or constant annual cost to be spread over the life of the asset. The review is looking at whether the statutory mitigation should continue. I think that local government's view, given the progress that has been achieved to date on that, is that there is no real case for changing the mitigation. It still fulfils the very important objective of spreading funding costs and being fair to different generations of council tax payers, by spreading costs in an equal way—

Michelle Thomson: I am sorry to interrupt. You have given a clear description of what the issue is about. You used the term “anomaly”. To draw you back to my question, I understand what you are talking about, but what I am trying to draw out is whether there are any risks to the Scottish Government of enabling the service concession approach. You have been clear that there will be no additional costs. I am trying to explore whether you have identified any additional risks.

Alan Russell: I am not aware of any. To go back briefly to the prudential regime that underpins capital investment in local authorities, that would be completely reflected in how local authorities treat all the other assets that they invest in over their life. I am not aware of any significant change in risks that would be presented at a national level.

Michelle Thomson: Thank you. Mindful of the Finance and Public Administration Committee's reputation for being the most exciting committee, I am going to take it up a level. This is a question for all three witnesses. One of the questions that everyone has been asked to submit on is how the Scottish Government budget should address the different impacts of the pandemic across a number of categories, including age and income. I wonder whether you might answer that question again, but with regard to the impact on women, given the concerns that have been highlighted about key workers and so on. I suspect that Linda Somerville will want to come in first here, but I am certainly interested in hearing other people's thoughts on how the Scottish budget can address concerns with regard to women.

Linda Somerville: This just reflects what we have put in our submission and, indeed, the STUC's long-held policy, but I would highlight the gender pay gap. As has been well documented by other organisations as well as by us, the money that goes into women's pockets through their wages or the social security system gets paid back out into the local economy. There are benefits to everyone in addressing in-work and child poverty and in valuing women's work. Because the majority of key workers are women, we need to think about increasing public sector pay.

Michelle Thomson: Obviously, that raises the question of what you would cut to support such pay increases.

Linda Somerville: That brings me back to what I said earlier about the need to think about how we use this particular point in time post-Covid—I hope, health-wise—to get some new and different ideas on the table and to find different ways of raising revenue. I am not a tax expert, so I do not have all the details, but we need to think not just about how local authorities and the Scottish Government can make use of their current devolved powers but about how we can increase

our borrowing powers. Moreover, there is the business rates relief, some of which, as we have mentioned, is perhaps not the best use of public funding.

Michelle Thomson: Gail, do you want to close this out? How should the Scottish Government address issues specifically relating to women?

Councillor Macgregor: I do not have a huge amount to add to what Linda Somerville said, because a lot of what she has highlighted cuts across the views of local government, too. We know that women are employed in lower-paid jobs that often do not have the same career pathway opportunities, and we know that, in social care and care at home, there are recruitment and retention issues affecting predominantly women. The key thing for local government is to ensure not only that we can give female employees opportunities in the way that Linda has identified but that that cuts across into our communities in those services that we deliver for women to address issues such as domestic abuse and period poverty, to empower them in the home and to give them better life chances. It all comes back to having good key local community services and ensuring that we identify people who require that support. What will benefit women—in fact, not just women but all our communities—is if we work in conjunction with the Scottish Government to continue to deliver on policy areas and priorities through the national performance framework.

The Convener: I thought that you wanted Alan Russell to respond, too.

Michelle Thomson: Did you want to come in, Alan?

Alan Russell: No.

Liz Smith (Mid Scotland and Fife) (Con): Councillor Macgregor, you said in answer to Mr Greer that you were hopeful of you and the Scottish Government working towards a better fiscal framework than we have currently. Can you put on record your three top priorities for making it better?

Councillor Macgregor: On the record, I would say that we need, first of all, a fair core budget that enables us to deliver our core revenue services; secondly, certainty in multiyear funding, which is key; and thirdly, capital, which has been a huge issue. Historically, our capital has sat at around 27 per cent of the capital budget, but it has now been reduced to about 13 per cent with climate change targets and, indeed, with economic recovery from Covid, in which capital will be pivotal. We need the security of a stable core budget that covers core costs, ensuring that the ring-fenced costs that we spoke about earlier are absolutely covered. We then have to get back to a pattern where we get a

much fairer cut of the capital pie, which would help our communities immeasurably.

Liz Smith: You are going to tell me that you would like more money in order to do those things. Do you feel that certain structures should be changed to allow for what you describe as a fairer spend?

Councillor Macgregor: We need greater trust between local government and the Scottish Government so that, when the Government gives us funding to deliver something, it trusts us to do so. There has historically been a breakdown in trust, which is why we have ended up with a number of ring-fenced pockets.

As we move forward, that relationship, and the relationship between local government and Opposition parties in Parliament, is definitely improving. Those cross-party discussions are much more constructive. Fundamentally, it comes down to a position in which we trust that Government will give us sufficient budget to deliver on the key priorities in the national performance framework and in Government policy, and then let us get on with the job without overly onerous monitoring and reporting requirements. We obviously have to monitor and report, but those requirements are now reaching the onerous stage.

Liz Smith: I agree with you about trust—that is very important.

I want to press you a bit more on whether you think that there should be structural changes that would make the fiscal framework easier for local authorities.

Councillor Macgregor: I turn to Alan Russell, because he deals more than I do with the structural elements.

Alan Russell: Perhaps Liz Smith can clarify whether she is talking about structural changes in the financial framework.

Liz Smith: Yes.

Alan Russell: To be honest, Gail Macgregor has touched on many of the issues, and I concur with what she said.

We touched earlier on the question of beginning to explore what other flexibilities can be made available locally to local government as part of a wider fiscal framework, and whether more levers can be available at a local level as part of local decision making in how local government is financed.

I also touched earlier on the need to explore in particular opportunities in relation to non-domestic rates. In the current structures, NDR is managed effectively at a national level, and we could explore further how we increase flexibility in that

respect to respond to local needs. That would not necessarily involve devolving NDR to the local level in full, but there could be opportunities to explore greater flexibilities that could be introduced to allow councils to respond to local priorities such as regeneration, or other approaches to funding local services.

Gail Macgregor touched on the structure and the use of ring-fenced funding. A better and more beneficial approach would be to focus on outcomes, as opposed to controlling inputs.

Liz Smith: That is helpful. Mr Mason raised earlier the question whether it is better and more effective, and perhaps more efficient, for local government to respond to local needs. Do you feel that the increased flexibility that you are asking for would make that more possible, and that local government should better respond to local needs rather than national priorities?

Alan Russell: In many respects, there is often agreement on what the national priorities are. There is a question around achieving national policy outcomes, and whether the approach that is employed at a local level needs to be the same. What is best deployed in one local community can be different from what is required, and what may be co-produced with local communities, elsewhere in the country. The ability to have greater flexibility to develop, with local communities, the solutions that will best work for those areas is something that could lead to better outcomes in the long term in the achievement of national policy objectives.

10:45

Liz Smith: Just to be clear, is it correct to say that the 32 local authorities across Scotland broadly accept the national priorities in terms of policy but you are asking for greater local flexibility in how councils address those?

Alan Russell: I will let Gail Macgregor comment on the policy. Many of the national performance framework policy outcomes are reflected and shared at a local level by councils as key outcomes. An approach that allows local authorities to design at local level how best to achieve those could deliver better long-term outcomes.

Douglas Lumsden (North East Scotland) (Con): I refer members to my entry in the register of members' interests: I am still a member of Aberdeen City Council, which is a member of COSLA.

I go back to the question that Michelle Thomson asked about capital concession regulations. Granting that approach does not appear to present a risk to the Scottish Government. I am trying to dig down a bit deeper into why that would not be

allowed. I presume that councils could borrow more if that were allowed. Is that the case?

Councillor Macgregor: Alan Russell is the expert on that.

Alan Russell: I apologise if I was getting too technical earlier. In straightforward terms, there would be no change in the payments that councils would make to the contractors. The focus is on the accounting arrangements and how those costs are spread over the life of the assets through councils' revenue accounts. There would be no direct implications for payments going to contractors and there would be no requirement for councils to borrow in relation to how those costs are ultimately accounted for through revenue budgets over the long term. From a cash-flow perspective, there would be no change. It is about how those costs are ultimately spread throughout the life of the asset and aligning how those costs are accounted for with the much longer life of the assets, as opposed to the contract length, which is much shorter. There would be no fundamental change in how payments are made. It is about how those payments are accounted for over the long-term life of the asset.

Douglas Lumsden: Would that mean that councils could borrow more because the debt would be spread out over a longer term?

Alan Russell: Yes. Regularising that position would involve the creation of a degree of financial correction and therefore headroom, which could be reinvested by councils. You are correct to say that, over the longer term, there would be beneficial impacts on council revenue budgets that could support alternative investment and the direction of those resources over that period. On both counts, there would be benefit that could help to support councils, for example to invest to a greater extent and help support economic recovery.

Douglas Lumsden: I have a final question on that point. Do we have any idea how much that change would mean for councils if it were made?

Alan Russell: It would very much depend on how old the individual contract associated with the council was. It could be anywhere from £20 million at an individual council level up to about £60 million or £70 million. It could have a very significant effect through correcting the position.

Douglas Lumsden: In your submission you say:

"The establishment of a new National Care Service ... is a distraction from recovery which will take resources, time and capacity away from service delivery at the time we would wish to see a significant investment."

What is COSLA's alternative? Is it just more money to local government?

Councillor Macgregor: No—absolutely not. COSLA is absolutely and fully behind the Feeley report. We looked at the recommendations, and there is an acknowledgement that there needs to be change and that we need to consider how services are delivered. There is no question about that.

The national care consultation has broadened that scope significantly, and it is now jeopardising local delivery, which is at the heart of what we do. We are trying to avoid having a very bureaucratic, lengthy process to deliver better outcomes for people. We know that we can deliver better outcomes for people now—this year, within the next 12 months—rather than going through a convoluted, bureaucratic and very costly other tier of governance in creating a national care service.

I think that Linda Somerville will agree with me that we need to consider recruitment and retention in social care and care at home. We need to be offering better job opportunities. Some local authorities have intervened and have offered higher wage rates. Those are all areas that we can look at now if there is additional funding, and we can begin to make real differences to people in communities. We know our communities and we know what individuals within those communities need.

We all have the same goal: we want to ensure that our clients and the people who use services are getting the best services possible, but I am not convinced that a lengthy five-year process with a lot of bureaucracy involved will deliver that outcome. We could be having discussions to speed that up and to ensure and empower our workforce, too.

The Convener: I have a couple of issues to wind up on. First, referring to paragraph 13 of the COSLA-CIPFA submission, which is headed “Place-based inclusive approaches are needed”, you say:

“Councils will look to use well established place-based approaches ... bringing buildings back into use in town centres and improving the wider public realm, to supporting and working with communities to make places more liveable.”

Does COSLA believe that the Scottish Government should introduce compulsory sales orders in this parliamentary session?

Councillor Macgregor: I do not think that COSLA has a view on that, but I will double-check and come back to you.

The Convener: What about CIPFA, Alan?

Alan Russell: I am sorry, convener: your sound dropped off just as you asked the question. Could you repeat it for me?

The Convener: Yes, indeed. I asked whether CIPFA believes that the Scottish Government should introduce compulsory sales orders in this parliamentary session to improve your ability to deliver place-based approaches.

Alan Russell: As with what Gail Macgregor has just said, that is not something that my section has considered, but any policy context that supports regeneration and bringing empty properties back into use is important for the recovery of communities and town centres. However, I would not provide any more comment than that at this point.

The Convener: I will move on to something that we have discussed. I am looking to find out from Gail Macgregor where the balance should be struck on local flexibility. In 2007 the Scottish Government abolished some 60 ring-fenced funds from the previous Labour-Lib Dem Administration and signed what is now fondly looked back on as the historic concordat of November 2007. The idea was that local flexibility would be restored across local government.

However, an issue arose, of course, for the Scottish ministers when they allocated funding for specific pots—for teacher numbers, for example. Local authorities would then decide that, as they had local flexibility, they would not spend the money on teacher numbers. The parliamentary party colleagues of those who had decided not to increase teacher numbers in specific areas would then attack the Scottish Government for failing to deliver on its manifesto commitment to increase teacher numbers. The Scottish ministers obviously thought, “We’re damned if we do and damned if we don’t.”

How do we balance that? The Scottish ministers do not want to be in the position of providing additional funding for specific areas of manifesto commitment policy yet being criticised for not delivering it. On the other hand, if they do not provide local authorities with flexibility, they will be criticised for that. Is there a way in which that can be balanced?

Councillor Macgregor: It is a very difficult balance. As Liz Smith mentioned, fundamentally, it comes down to trust. I understand your point about the historic concordat. I am not sure that we want to create a new concordat at this stage. We need to look at the outcome measures instead of the inputs. In recent years, we have had some fairly high-level, costly announcements about policy at the top end, without there being enough discussion about how that policy will be implemented on the ground.

Trust needs to be built between local government and the Scottish Government, and we need to be more involved in policy development.

When the Government thinks about introducing a new policy, we should be engaged on day 1 in discussions about how that policy could assist our communities, how it would be delivered and how we could assist with that.

We have come a long way on better departmental working between COSLA, the Scottish Government and individual councils, and we need to continue that. When the Scottish Government looks at developing policies such as its 100-day commitments—we completely understand why it made those commitments; politically, that is absolutely in the Government's gift to do—the first thing that it should do is phone us up and say, "We want to do this. How can you facilitate that? How can we develop the policy so that we achieve the right outcome rather than just putting money in at the front end?" I hope to continue to work with ministers on that.

The Convener: On the 100-day commitments, you said in your submission that, in its manifesto, the SNP has "tended to favour universalism". You went on to criticise that and to talk about the need for more specific targeting. However, there has always been an argument about whether to use targeting or universalism. The UK Government brought in universal credit and the NHS is a universal service, as are pensions and concessionary fares. The argument against having a national care service is to do with bureaucracy, but having a more targeted approach can also increase bureaucracy, because people have to administer that. I remember that, when I was a councillor, a huge resource was spent on administering grants.

There is bureaucracy and stigma, but there is also buy-in. With universal services, there is an opportunity for people who pay taxes to gain from the contribution that they make to those services. Where should the balance be between targeting and universalism? It is a difficult balance to strike, but where does COSLA believe that it should lie?

Councillor Macgregor: A lot of the policies that are included in the 100-day commitments are policies that councils delivered on for many years. However, as a result of successive budget cuts, hard political decisions had to be taken locally and some of those services—music tuition is a prime example—had to be lost to budget savings. There is frustration when, down the line, the Government ring fences spending on a new policy on—to use the same example—music tuition, instead of just giving us sufficient funding over the piece to enable us to continue to deliver such services locally.

Targeting resource is absolutely fine, but if the purpose of that is simply to do something that we were doing previously but had to stop doing because of budget cuts, that makes things

extremely difficult for councils, because it makes it look as though councils took away the wrong service when that was not the case.

11:00

There is a difficult balance when it comes to things such as delivering tablets, laptops and devices to schoolchildren. That is a brilliant policy, but some of our councils were doing that anyway and those councils do not get the financial benefit of a new policy commitment that comes out through the plan for the first 100 days. The Scottish Borders Council is an example. It had a brilliant scheme that delivered iPads to all pupils, which was fantastic through Covid, but now we have this overarching universal system that the council will not benefit from it. My key message would be: give us sufficient core budget to deliver sufficient core services and then let us get on locally, in discussion with the Government, on the delivery of those.

The Convener: There is another way to look at that. To encourage innovation, we could say that, if local authorities have introduced such innovations, that should be looked at specifically in their settlement. We all know that there is a funding formula, but should there be some recognition of innovation? We would not want a situation in which a council that has decided to spend something on a project will necessarily get that fully funded by the national Government, or councils could just spend money on whatever they wanted and the national Government would be left with the bill. However, is there a mechanism by which innovation could perhaps be more recognised? Should councils that are being more innovative and bringing in new ideas perhaps be rewarded for that in some way?

Councillor Macgregor: That would be an excellent idea, but I do not think that such a mechanism exists at the moment. Perhaps that is a discussion that I need to have with the cabinet secretary.

The Convener: We probably all need to do that, to be perfectly honest. Lastly, what is the STUC's view on targeting versus universalism?

Linda Somerville: Generally, we think that local authorities should be fully funded to deliver the services that they need to deliver locally, although there are some issues around the education sector. It is up to local authorities to provide services that meet the needs of their region, depending on what the factors are around that. It is clear that local authorities and the workers in local authorities have carried us through the past 18 months. We must look forward at how they can best be supported, not just in post-Covid recovery but to get a bit of resilience into our communities

going forward. What do we want to do to build that resilience? We need to think about how to strengthen both the workforce and the services that they deliver to our communities. We should be targeting public sector investment to make sure that we have that resilience. That is something that we would look for. The committee is looking for a fair and equal recovery and we think that that has to be a key part of it.

The Convener: How can the Scottish Government fully fund local government, for example, if it is not fully funded through the block grant?

Linda Somerville: I suppose that there are political decisions to be made. We appreciate that the national health service has been given priority because of the health crisis, but we think that there are other ways that the Government can look to try to fund the public sector. That is one of the things that we have asked it to consider.

The Convener: Thank you. I thank all our witnesses. We have run over time, but we will have a break until 11.15.

11:03

Meeting suspended.

11:13

On resuming—

The Convener: We now turn to our second panel of witnesses on Scotland's public finances and the impact of Covid-19. We are joined by David Eiser, senior knowledge exchange fellow, Fraser of Allander Institute; Susan Murray, director, David Hume Institute; and Ray Perman, fellow, Royal Society of Edinburgh. I intend to allow up to 90 minutes for this session. Members have received written submissions from each of our witnesses. I welcome everyone to the meeting—I give the witnesses a particularly warm welcome for coming here in person, which the committee greatly appreciates.

I start by asking something of the David Hume Institute. Under item 3 in its submission, it says:

"At a time of multiple challenges and tight public finances, hard choices are almost certainly going to involve choosing to stop spending money on services or initiatives that are achieving public good, and are valued by their recipients or stakeholders in order to start or increase spending on other areas that are now judged a higher priority."

With many of the witnesses we have heard from, it has been like drawing teeth to get them to say where they would disinvest. Everyone has come to the committee and said, "We require additional funding in our areas." We have explained that we might have only a 2 per cent real-terms increase in

the budget, but all our witnesses appear to feel that that should be specifically targeted at their sector.

I hope that Susan Murray and other colleagues will help by contributing some ideas as to where disinvestment can take place, because, if we are going to spend money more effectively and deliver better outcomes, that will need to happen. Do you have any examples that you can share with the committee?

11:15

Susan Murray (David Hume Institute): Nothing hard to start with, then. [*Laughter.*] I had a feeling that you might ask that—thank you for inviting me here today, by the way. I had noticed that, in previous evidence sessions, it was an area that no one was talking about. I think that that is because it is really difficult and controversial. It is controversial because, if we take money away from something, some people will not be happy.

Last year, we looked at the issue from a different point of view and thought about how we enable more people to take action to make their own and other people's lives better. We talked to all sorts of people from all over Scotland and from all different backgrounds. We brought people together who would not normally meet, and really interesting things came out of those conversations, because they led to actions. That does not directly answer your question, Mr Gibson, but that was where we started.

We did not start by looking at Government policy, because I am not trying to lobby for anything in particular. I am not a member of a think tank that has a particular ideology, and I am not trying to push any particular thing. We were just interested in action and how we might get more people to do more things. That was where we started, and then we looked at things that might be getting in the way of action.

We focused on multiyear budgets—I know that you have asked quite a lot of questions about that in previous evidence sessions—because that seemed to be getting in the way. In relation to the fiscal framework—I am sitting next to David Eiser, who is an expert on its intricacies, so I will not talk about those—multiyear budgeting is the real sticking point. I know that it has come up in the conversations with the third sector, but I will give an example that shows how multiyear budgeting is an issue across all sectors—it is sometimes easier dealing with an example.

Peatlands are uncontroversial in the sense that we understand why we need to restore them, so Scottish Government money is going into restoration. From 2012, money was provided on an annual cycle. The period in which we can

restore peat is limited in Scotland due to the bird-nesting season and the weather, so annual budgets would be decided each year, contracts would be issued and everything would be limited, squashed and under pressure. That would then all have to be done again the next year. The businesses involved were saying, “We’re finding this really difficult because we can’t invest in machinery, we can’t scale up and we need to restore more peat, but we can’t get the staff because we can’t guarantee that that money is coming.” There was therefore a knock-on effect of single-year budgeting on jobs and investment in productivity.

Last year, the Scottish Government committed to a 10-year programme of peatland restoration. We hope that that long-term commitment means that more peatland can be restored. However, if we think about it in a different way, the tough choices lie not in a multiyear or single-year settlement but in what we do for the longer term. If we talk to young people, which we did in this work, they will say that tackling climate change trumps everything. The difficult choice is therefore whether, because of climate change, to stop degrading peatland in the first place.

In Scotland, we are not restoring peatland anywhere near as fast as we are degrading it. If we are going to have preventative spend, the tough decision is whether to do something about the degradation of peatland. That is controversial because loads of interests are involved in that and they have strong lobbies. How would the Parliament deal with the ultimate decision being whether to prioritise the climate change outcome? Who would make that tough decision? That is one example, if it helps.

The Convener: It is an interesting example, but it is also geographically specific. It would not affect Edinburgh, for example.

Susan Murray: It would affect Midlothian.

The Convener: Indeed—I suppose so. However, it would affect some people disproportionately. If they then had to invest elsewhere, they might not necessarily gain proportionately.

What is David Eiser’s view on the matter? Where should we look to disinvest if we are going to spend or invest—however you want to phrase it—in order to have more effective outcomes for Scotland?

David Eiser (Fraser of Allander Institute): I agree with the premise of the question. The current outlook for the Scottish Government’s resource budget in 2022, 2023 and 2024 is actually slightly less positive, and less generous, than the outlook just before the start of the pandemic. Although the UK Government

announced a lot of additional spending last year and this year to deal with the immediate impacts of the pandemic, in the longer term, it has made cuts to planned departmental spending at a UK level to address the fact that the size of the economy, and therefore its ability to raise revenue, is now smaller than it was pre-pandemic.

The current outlook for the resource budget is no better than it was pre-pandemic, even though the public sector will now have to deal with the legacy impacts of Covid-19 and various other policy commitments that have been made in the past year or so. That is a big challenge.

It is no surprise that Governments do not ever like to be explicit about where they are making savings or disinvesting. Before we even get to the question of how we do that, there is a first stage, in which Governments can get better at recognising, and being explicit about, where they are disinvesting. In general, they shave budgets here and there and move things around to try to give the impression that they are not disinvesting in anything.

From looking at budget documents, it is very hard to work out where disinvestment is happening, let alone the outcomes of, or justification for, it. The first step is for Governments to be much more transparent about where those decisions are being made and what the outcomes of that disinvestment will be.

The Convener: You make two points. The first is that the Government could use a wee bit of sleight of hand by, for example, not increasing budgets by the rate of inflation but instead sticking at cash levels, which would be a reduction in real terms. I thought that you would be a bit more heroic and give us an example, as Susan Murray did—and as Ray Perman, I am sure, is about to.

David Eiser: It is very difficult. These things tend to emerge only over time. A classic example is local government. We know that its share of total resource spending in Scotland has fallen since the financial crisis, but where has the disinvestment happened, and—crucially—what have the outcomes been? It is difficult to find evidence on that—either to get the Government to provide evidence in advance, or to find any evaluation of what the impacts have been ex post, if you like.

The Convener: I wonder whether, if we had been asking those questions at the start of the industrial revolution, anybody would have said, “You know, we really need to get rid of some of these Clydesdales and start building some combine harvesters,” or something like that.

I hope that we will have an answer from Ray Perman on disinvestment. The committee has to produce a report with recommendations to the

Government. It is one thing to say that we need to invest more in preventative spend and to disinvest in areas in which the outcomes are not great, but we look to organisations such as the RSE, the David Hume Institute and the Fraser of Allander Institute to give us some examples. Do you have any?

Ray Perman (Royal Society of Edinburgh): I did not come with a list of cuts, but—

The Convener: Cuts? Cuts? [*Laughter.*]

Ray Perman: That would be an interesting exercise, if you want to invite me back.

David Eiser's analysis is, as always, exactly right. Government does not usually stop funding midstream; it cheese-pares and cuts away, and we end up with a number of legacy projects, none of which is achieving the original aims, because their budgets are being run down over time.

The only example that I can give you, from the recent past, of where funding was precipitously withdrawn is in the arts. Some years ago, you might remember that Creative Scotland decided to change its policy and concentrate on a smaller number of projects, which meant that a number of sacred cows had to be slaughtered. That caused a huge political row, so you can understand why the Government would be reluctant to do it.

The point that we have tried to make in our evidence is that these are, as everybody knows, very uncertain times. That uncertainty is layered. For a start, the pandemic is not over, and it could come back in a very vicious way that causes huge amounts of unplanned spending. There is also climate change, which Susan Murray mentioned, with unpredictable weather events again resulting in unplanned spending. We know about inflation; we do not yet know what the chancellor is planning for October, of course, and there might well be surprises for the Scottish Government in that.

A hard choice will have to be made. In the year to come, there will have to be big spending to catch up on backlogs in health, the care service, social work and education, and that will take up the vast majority of the Scottish Government's budget. The Government's flexibility to spend on other areas will be severely limited, and some unpleasant political choices will have to be made.

The Convener: Thank you. David Eiser, your submission says:

"what constitutes a 'fair and equal' recovery is a somewhat subjective question."

What does it mean to the Fraser of Allander Institute?

David Eiser: I was answering a specific question from the committee about addressing the

need for a fair and equal recovery from the Covid crisis. The pandemic has clearly accentuated a lot of the existing inequalities in society, and it has done so in a multidimensional way. For example, there has been an increase in inequality of employment access, income, wealth and health, and we suspect that there will also be an increase in inequality of educational outcome. Even conceptualising what exactly is meant by a fair and equal recovery becomes quite difficult, given the different dimensions involved. Moreover, in any one of those dimensions, there will be many different ways of thinking about what is fair or equal.

We talk a lot about differences between groups with regard to the outcomes experienced during the pandemic—for example, the differences between sectors, between young and old, between ethnic groups and so on—and sometimes that can be a useful way of thinking about things. However, there are differences within those groups, too, so the question is how you conceptualise a target that incorporates all those concerns. That is really difficult, and I am interested to see what the Government comes up with and how it frames its approach to recovery from the pandemic.

The Convener: I wonder if we can hear briefly from Ray Perman and Susan Murray on this question. After all, it is fundamental to what we are trying to achieve.

Ray Perman: Are we talking now about the underlying economy and the weakness of the Scottish economy?

The Convener: We are indeed.

Ray Perman: In her evidence, the Cabinet Secretary for Finance and the Economy promised to produce a paper that, I think, she said would have a laser-like focus on growing the economy. That would be very welcome because, in our view, the Government's policy on growing the economy in Scotland has not been laser-like at all in the past few years. In fact, it has been quite confused, sometimes very dispersed and very bureaucratic. If what the cabinet secretary has promised comes in that paper, we will be very interested to read it.

However, I go back to my point that there will be huge calls on Government money next year, and funding a new economic initiative aimed at growing the economy will be a very brave political choice if there are clamours for more funds for health, social care and education, too. The underlying problem with the Scottish economy is long established. It is deep-seated and solving it will need a lot of new thinking and, possibly, quite a lot of investment. That cannot be done quickly or during a pandemic.

11:30

The Convener: In your submission, you said:

“The RSE believes that a spending priority will be to support the economy through investing in early-stage companies (spinouts and start-ups), which are crucial to job creation”.

I agree. What mechanism could be used through the budget settlement to enable that to happen?

Ray Perman: We supported the creation of the Scottish National Investment Bank because we thought that it would have a laser-like focus on growing the economy. However, it has been given three gigantic missions to accomplish. They are important missions—decarbonising the economy, dealing with an ageing workforce and investing in growth companies and improving productivity—but they are huge, and its budget is not adequate to do that.

There is now a proliferation of agencies responsible for the economy. When I was on the board of Scottish Enterprise a decade or so ago, the budget was something like £630 million, and now it is roughly half that. That money is still being spent, but it is being spent by the Scottish National Investment Bank, South of Scotland Enterprise and elsewhere, and I feel that we have lost focus on and impetus around trying to find the things that will improve the productivity and prosperity of the country and will eradicate some of the problems that impact on the amount of money that the Scottish Government has to spend every year.

Susan Murray: The question was specifically about fairness, but the focus of the call for evidence was the 2020 budget.

I am really inspired by John Carnochan of the Scottish Violence Reduction Unit who frequently quotes a phrase that Arthur Ashe used, which is:

“Start where you are. Use what you have. Do what you can.”

What I did this year was upgrade what I am doing in relation to the kick-start scheme, which is run by the Department for Work and Pensions. In terms of fairness, I am not quite sure why the kick-start scheme is funded for 25 hours. Could we in Scotland encourage more leaders to upgrade those kick-start scheme placements to full-time roles? Employing those people for 35 hours would help the tax take.

We have a track record of creative employment policies like that. The Scottish Parliament information centre report slightly misquotes the David Hume Institute’s evidence. We have not recommended that there should be another community jobs Scotland. What we have said is that Scotland has a track record of doing things creatively with employment. When community jobs Scotland started, nothing like that had been done

before, but it has been proven to help young people into jobs.

As I said, if every kick-start scheme placement in Scotland—or even half of them—were upgraded to 35 hours a week, that would help the tax take and would help young people to get a foothold in those careers. Are there other things like that that we could do in the short term that would mean that young people had a start in careers that they might not have otherwise? Unless there is a policy of four days a week across the board in Scotland, which I do not think that there is, there will be a problem, because 25 hours is not quite enough for people to survive on financially. I wonder whether we can think about fairness in a different way, using the tools that might be at our disposal.

In another evidence session, there was discussion of the SPICe report on the business base. I am interested in the growth of unregistered businesses in Scotland. That is not something that we have had a chance to work on, but what if we looked at how we could get more unregistered businesses that were not currently employing people to employ people? I do not think that there is a laser-like focus on that at the moment.

My next point relates to a question that Michelle Thomson is probably about to ask me. I was really shocked by what I read about the people who are able to access capital to grow businesses in Scotland. If you are a female or are someone from a different type of background, you are much less able to access that capital. That is not fair and we have to do more on that. However, I do not think that that is something that Government can do something about directly. The Government can encourage change to happen, but we need all the people who are in positions of power to say, “Hang on a minute, are we funding the best businesses or are we just funding businesses that we have experience of?” That is a bigger challenge, I think.

The Convener: Culture change is always a difficult challenge.

This will be my final question, as I want to let colleagues in. Ray Perman, you say in your submission:

“The RSE is concerned that new initiatives from the UK Government, including the Shared Prosperity Fund, Levelling Up Fund, and Community Renewal Fund will bypass the devolved administrations.”

Can you elaborate on those concerns?

Ray Perman: I made that comment in the context of the upcoming negotiations on the refreshing or renewal of the fiscal framework. We feel that a number of things could be done to improve Scotland’s position, and not necessarily at the expense of any other part of the UK. However, the relationship between not just Scotland but the devolved Governments in general and the UK

Government has deteriorated, and it seems that a conscious political decision has been made to undermine the devolution settlement, particularly in Scotland but also in the other devolved nations. We list some of those things that could be done to improve Scotland's position in our submission

Since then, we have seen another decision with the increase in national insurance contributions. That is not a good basis for negotiations that will depend on give and take and goodwill on both sides. It is incumbent on the UK Government to do something about the situation, but Scotland could help by raising those points in a constructive way and seeing whether there is any way of getting things back onto a more stable footing.

The Convener: Does David Eiser or Susan Murray wish to comment?

David Eiser: I agree with everything that Ray Perman has just said. Intergovernmental relations are really important, but there is no doubt that they have deteriorated recently, which will pose a number of challenges not just in renegotiating the fiscal framework but in replacing the European Union legacy funds.

Susan Murray: I have nothing to add, convener, as the other witnesses have already covered the issues.

The Convener: In that case, I will move to questions from committee members, and I am pretty sure that one area in particular is going to be focused on very quickly.

Ross Greer: The discussion on the difficult choices that need to be made has very much focused on what to cut or disinvest from, but there are other difficult choices that Government and Parliament can make with regard to how we raise additional revenue and who we raise it from. I have a pretty open-ended question for you. I recognise that they create a separate set of challenges from that presented by simply reducing budgets, but what revenue-raising opportunities will there be over the next couple of years?

David Eiser: First, the Government has already committed to real-terms increases in income tax over the next few years by freezing income tax thresholds in cash terms. From a budgetary perspective, that mirrors the UK Government's position in a way and therefore maintains the existing gap between the income tax policies and the impact on revenue of Scotland's slightly different income tax policy, relative to the UK position. Clearly, you could increase income tax rates further if you wanted to, but you have to recognise that the existing position is, in effect, already a real-terms increase in the income tax burden over the next few years via the freezing of the thresholds.

Whether you want to seek further revenues through income tax, either by increasing one of the rates or by cutting a threshold in cash terms, is a political question. The basic message is that, if you are interested in revenue raising, broad-based tax increases get you the biggest impact. Increases on a small proportion of higher earners are less effective as a way of raising big revenues.

Income tax is the major tax that you look at for revenue raising if you want that revenue to be significant. The scope for raising substantial additional revenues from the existing devolved taxes is probably much more limited. One interesting caveat to that is that, this year, temporary reliefs on non-domestic rates for businesses in the retail, hospitality and leisure sectors are costing slightly less than £1 billion. That is a significant source of revenue. We do not expect that all of that will be rolled forward into next year, but there is scope to look at some of those reliefs as a source of revenue in the longer term.

Ross Greer: In the earlier part of our meeting, Linda Somerville from the STUC mentioned that its position is that we need to tax not just income, but wealth. Councillor Macgregor talked about other local revenue-raising opportunities, the transient visitor levy being one example. It was derailed by Covid, but there is still a broad appetite to move in that direction. We talked a moment ago about creative policy solutions being adopted in Scotland in the past years. Can other creative solutions for revenue raising be found at a local level?

Ray Perman: I will answer that in a fairly negative and roundabout way. First, politically, I think that the UK Government has taken away the opportunity to raise tax rates in Scotland. It would be very difficult for the Scottish Government to raise any tax rates substantially during a pandemic, when the economy is not yet back to its pre-pandemic level, and given that the UK Government has already raised taxes on individuals and on employers. It is a fact that it would be difficult politically to do that.

Secondly, as a matter of principle, it would be good for the Scottish Government to be able to raise more of its own revenue independently. It would promote good government if a bigger proportion of the amount of money that is spent in Scotland by the Scottish Government was raised in Scotland. However, we have to accept that that introduces an element of risk. There is already a huge element of risk in forecasting Government revenues from the devolved taxes, particularly income tax. We are seeing some of that now. I suggest that the Scottish Government would not want to take on unnecessary extra risk. It might be

desirable to go for more devolved taxes, but perhaps now is not the time to do it.

David Eiser: To pick up on your follow-up question, Mr Greer, taxes do things other than raise revenue. We also use them to achieve redistribution and to incentivise behavioural changes. I think that some of the taxes that you mentioned or hinted at, such as the tourism visitor levy and a potential workplace parking levy, are examples of taxes that fall mainly into the category of incentivising behavioural change. That might be a good reason to have them, and some of those taxes might raise reasonably significant revenues for some local authorities, but I do not think that they are going to be significant revenue raisers for Scotland as a whole, especially in the immediate post-pandemic period.

Ross Greer: Thank you. That is all from me.

11:45

Liz Smith: Notwithstanding what you said about the need to improve intergovernmental relations between Holyrood and Westminster, which is crucial, one of the interesting things that the committee has to wrestle with is what the fiscal framework should look like going into the future and how to inspire growth and make sure that the Scottish economy is doing as well as it possibly could do, as Mr Perman said in his sensible remarks. In that context, and in relation to some of the comments in your submissions, what would you like to see improved in the fiscal framework when it is renegotiated in the next few months?

Ray Perman: If we look back to the original negotiations on the fiscal framework in 2016, if you can remember that far back, they got bogged down on quite a small technical point of whether the Treasury's preferred methodology for calculating the block grant adjustment was preferable to the one proposed by the Scottish Government. I remember it very well because I was in Susan Murray's job at that time—I was director of the David Hume Institute—and, on the day that it all came to a head, we were hosting a meeting at which the First Minister was supposed to be the speaker. When she was supposed to arrive, she was on the telephone to George Osborne, who was then the UK Chancellor of the Exchequer, hammering out the compromise that enabled the fiscal framework to come into being. She turned up late and we forgave her for that.

The compromise, basically, was that George Osborne said "Okay, we will accept the Scottish calculation, but in five years' time we will renegotiate." That has been delayed because of the pandemic, but it comes up next year. When we look back, the difference between those two methodologies would have been relatively

insignificant compared to the much bigger problems of forecasting, for example. That is not a reflection on the Scottish Fiscal Commission, because nobody has a perfect record in forecasting revenues, but the forecasting errors are quite substantial.

Therefore, in the next fiscal framework, there should be some recognition of the practical difficulties of using those forecasts and reconciling them in arrears. There are a couple of ways in which that could be done. There is an outstanding amount still to be reconciled, which will fall on the budget next year, and it could be that the Scottish Government asks for time to pay that. That would be a reasonable request. In Treasury terms it is a tiny amount, but it would make a substantial difference to Scotland.

The second thing concerns borrowing powers. Scotland's ability to borrow to deal with annual fluctuations is pretty limited. The Cardiff University submission to the committee said that it is relatively lower when compared with the Welsh fiscal framework. David Eiser will correct me if I am wrong, but I think it is around £300 million a year, which is less than 1 per cent of the Scottish budget. It is not a lot to enable the handling of fluctuations year on year, particularly at a time when, as we have said before, there is so much unpredictability. What we should therefore be looking for in the next fiscal framework is some flexibility and the ability to acknowledge that we live in uncertain times, enabling us to get through those with as little disruption as possible.

Liz Smith: I want to probe a little further on the question about forecasts. We had an interesting discussion when the Scottish Fiscal Commission and the Office for Budget Responsibility were in front of the committee. Do you feel that one of the issues that is detrimental to Scotland is the timescale difference between when different forecasts are presented, which makes it difficult for the Scottish Government to play out the national situation, seen on the UK level, against what is very Scottish data? Is there a problem there about the timescales and the methodologies that are being used?

Ray Perman: David is much more expert in that sort of thing than I am, but I would say that, yes, there is. We have just had the forecasts from the Scottish Fiscal Commission, but we will not get the comparable forecasts from the OBR for some weeks yet. Therefore, we cannot compare them. There are differences in methodology and in the quality of the data that is used, so, yes, work could be done on that. However, forecasting is inherently difficult, and there are always errors. Those calculations may be only 1 per cent or 2 per cent wrong, but, unfortunately, they represent gigantic amounts of money. We must

acknowledge that it is always going to be an art rather than a science and try to find ways to mitigate the effects, particularly in one particular year.

Liz Smith: Mr Eiser, do you feel that that is a substantial problem with the fiscal framework, or can we get around that problem?

David Eiser: There are certainly some areas in which the limitations of the fiscal framework are very apparent. Ray Perman has explained those clearly. On the forecast error borrowing powers, there is an argument to say that we have had only three years of income tax outturn data and that the fact that the reconciliation exceeded the existing borrowing limit in one of those three years is not necessarily indicative of how frequently those reconciliations will exceed the borrowing limits. On the other hand, the current expectation is that those borrowing limits will be enough when we have full devolution of the social security powers that are coming on stream and assignment of VAT. Therefore, there is an obvious or strong case for saying that those limits on forecast error borrowing are insufficient.

Similarly, the drawdown limits and the cap on the Scotland reserve are not particularly generous, either in the context of the old budget exchange limits or, as Ray said, in the context of the limits that the Welsh Government has relative to the level of devolution that has happened there. Again, that is an area in which the limitations are pretty clear, and you would hope that the Governments could quite quickly agree at the very least that those existing constraints need to be addressed. Quite how far you raise those existing limits is, of course, a different question that the Governments will need to discuss and negotiate.

There are some issues that the Scottish Government clearly wants to raise as part of the fiscal framework renegotiation for which the case for inclusion in that renegotiation is harder to make. Those include questions around the scope for further tax devolution. The question in my mind is whether the fiscal framework review is the best place for those discussions, given that that review will probably be between the two Governments and, in effect, behind closed doors. Is that question about wider devolution one for a more open and deliberative process? I suspect that it is.

However, between those two extremes, there are issues such as the extent to which the Scottish Government should have additional borrowing powers—the ability to borrow to fund discretionary resource funding, for example—that are more of a grey area. The UK Government might say that that represents a new fiscal power and that it should not be part of the fiscal framework discussion. The Scottish Government might say that it is a tool by which it can address volatility associated with the

devolution settlement. It is clear that there are ongoing disagreements and debates about exactly what the scope of the review should be.

Liz Smith: Thank you. I have a final question. I know that it is difficult to take constitutional politics out of the discussion around the fiscal framework, but if we can do so for a moment, we can focus on what might be the best economic outcome from the renegotiation of the fiscal framework.

We have identified that we could have better intergovernmental relations and improve our forecasting so that, as has just been identified, we could better deal with some of the exogenous shocks that can hit us, notwithstanding some of the risks that are involved in that. Is there anything else that might be helpful to address in the renegotiation that might assist in terms of the growth perspective and the economic efficiency of Scotland?

Susan Murray: My answer connects to the previous question. One of the fundamental limitations of the fiscal framework is that so few people really understand it. One of the principles of good tax policy is that it should be simple. If we apply that to the fiscal framework, we should make it simpler to understand so that more people could engage with it and it would not just be the likes of David Eiser or Mairi Spowage who would understand the detail. At the moment, the system is incredibly complicated. As you have heard in previous evidence sessions, one number can go up, which might look good, but, actually, that can mean that there is less money. That seems crazy, and there is no chance of any non-specialist understanding that. That feels like a massive barrier.

Liz Smith: That is interesting, thank you.

Daniel Johnson: I am struggling to zero in on what my follow-up question should be, because so many interesting topics have been raised by the panel. That is a good problem to have.

I will start by examining the issues around inequality that were alluded to by the Fraser of Allander Institute in its submission. Unemployment data that was published today shows that unemployment is down but the number of jobs in the economy is still below pre-pandemic levels, which confirms what was going on before.

With furlough coming to an end, we need to be careful not to put ourselves in a position of false security by thinking that the situation with labour shortages means that there are no problems. In fact, we could have both problems: labour shortages and joblessness. Is that a correct assessment of the real risk? If so, how stubborn a problem could that be? Are there sufficient public policy measures in the programme for government—or possibly in the budget to come—

to deal with joblessness and labour shortages in the economy?

David Eiser: That is exactly the right assessment. At the start of the pandemic, there was a risk that the pandemic would create what economists sometimes call a structural change. As a result of the pandemic, there have been great changes in what we consume, how we work and where we consume, and all those things affect labour demand in the economy. The big unknown at the time was how readily the economy would be able to reallocate labour from sectors that have seen relative decline in demand to sectors that have seen relative growth.

The good news is that, since the start of the year, the overall outlook has improved a lot. At the start of this year, forecasters were thinking that we would see unemployment of 7 per cent by now, but the monthly unemployment figures are a lot more positive than people thought they would be.

That said, as you rightly point out, the latest data suggest that 120,000 people in Scotland are on furlough, split roughly half and half between partially and fully on furlough. We do not yet quite know exactly how things will play out at the end of the month, as the furlough scheme unwinds, and, of course, that number is on top of roughly the same number of people who are unemployed in Scotland at the moment. There is still the potential for even those aggregate numbers to look somewhat worse in a month or two.

The real challenge for the Government is that it needs to be very flexible and nimble in its response, and that is combined with the fact that employability as a policy area is messily distributed between the two layers of government. There are some real challenges in that respect.

I think that your assessment of there being real risks in the potential for unemployment to pick up further while, at the same time, some sectors face shortages highlights the exact challenge that we are facing. That was always the risk that the pandemic was going to create in labour market terms.

12:00

Daniel Johnson: Do the other witnesses have anything to add?

Ray Perman: We really are in uncharted waters. We have never been in this situation before, with the economy effectively stopping for a period and then taking a long time to get back to pre-pandemic levels. We are nowhere near them yet; indeed, we do not know what is going to happen in a month's time, when the furlough scheme ends and a number of other support measures—for the self-employed, for example—

come to an end. I therefore agree entirely with David Eiser that the Government has to try to be flexible and deal with the situation as it comes.

In the end, though, it all comes down to investment in education at all levels: in school education, where things have fallen back; in universities, which provide the Scottish economy with so much innovation; and in further education, which is the bit that is always forgotten but is vital in getting people into job vacancies—which, after all, are rising. We have not only very low unemployment but very high levels of job vacancies, and we need to find a way of matching those aspects much more closely.

The good news is that the economy has a lot of slack in it, so there is the potential to do a lot better there. However, it is very difficult to predict how soon the economy will get back to pre-pandemic levels. The SFC has been quite optimistic about that, but I think that it would be the first to say that its forecasts contain a number of caveats.

Susan Murray: Although lots of things have been mentioned, we have not yet talked about demography and, indeed, migration, which has to be critical. After all, Scotland has relied on that to fill skills gaps for a long time.

It feels that Scotland is still viewed positively in the world and that people still want to come here, but, when we looked at Professor Mike Anderson's analysis of demography a few months ago, I was fascinated by the fact that, for the first time in the past few years, Scotland has net migration from the rest of the UK. That might be the way to deal with skills gaps, if we have to, because we are not going to be able to train all the people we need fast enough to do the things that need to be done.

Daniel Johnson: I would like to follow up the discussion on the operation of the fiscal framework. The 2019-20 budget contained tax proposals that should have raised an additional £500 million, but, because of the block grant adjustment and the fiscal framework, only £148 million of additional funding came to the Scottish Government. My understanding of that is that we did not do such a good job of growing the number of taxpayers in Scotland or their ability to pay tax—in other words, how much money they were earning. Is that correct? If so, what does that tell us about the policies that are being pursued in Scotland to grow the tax base and earnings? Does it tell us something about the Scottish Government's ability to use the big fiscal lever that it has, or does it, in fact, show that that lever is not really effective? I am trying to remember what I learned in economics in my first year at university on elasticity of demand and the tax rate. Does it tell us that people switch behaviour when we alter tax rates in Scotland?

I ask David Eiser to respond first, but I am interested in hearing from the other witnesses.

David Eiser: You are correct. It is a complex issue that goes back to the point about the complexity of the fiscal framework. In a way, it is complex because there are two baselines from which you can assess the change that is taking place.

On the one hand, as a result of the tax policy in Scotland, Scottish income tax revenues are about £500 million higher than they would have been if the policy that prevails in the rest of the UK had been applied in Scotland. On that basis, the policy raises £500 million. However, if you ask how much better off the Scottish budget is compared with what its position would be had income tax not been devolved at all, the answer is only £150 million. That reflects the fact that the income tax base grew relatively more slowly in Scotland and the fact that, because income tax is now devolved, Scotland is not getting a share of the relatively faster-growing RUK income tax revenues. Scotland has not been short-changed, as it still has the full £500 million increase in its revenues as a result of the tax policy that it implemented, but it is getting that increase in revenues only from Scottish taxpayers and is not getting a share of the faster-growing income tax revenues in the rest of the UK.

You are right in saying that that poses a couple of questions, including the question of why we got that result. We do not know exactly yet, but I know that the Scottish Government and Her Majesty's Revenue and Customs are doing some pretty in-depth work to look at that question. My sense is that this is, to a large extent, going to be a legacy of things that were happening in the offshore sector, which have had a disproportionate impact on the Scottish economy and Scottish income growth relative to the rest of the UK.

The follow-on question is whether, if that is the explanation, it is fair that we have a fiscal framework that, in effect, sees the Scottish Government exposed to the implications of a global economic shock in oil prices—a shock that would have a disproportionate effect on Scotland relative to the rest of the UK. That is the trickier question to think about, and the answer depends on what you think a union is about and what happens in a union when there is tax devolution. That is the sort of question that the Governments will have to get to grips with when they review the fiscal framework.

Daniel Johnson: I will move on, but I am happy for other witnesses to come back on any of those issues.

I alluded to the idea that we should have a laser focus on growing the number of Scottish

taxpayers, but it now strikes me that it is critical to grow the amount of income that each Scottish taxpayer has, because that benefits the Scottish exchequer as well as the individuals themselves, and it should ultimately lead to tackling our productivity issues.

Let us return to Ray Perman's comments about the levels of spending on enterprise support. We are not spending anything like £600 million any more, which we were spending through Scottish Enterprise alone. We are spending about £530 million, so we are now spending less, despite having created the Scottish National Investment Bank. The question is this. We need to be mission led—we need to have that focus. Should that focus be purely on productivity, which will lead to impacts on earnings? If it is not, what should the mission of the Scottish National Investment Bank and other enterprise agencies be? How do we enhance that laser focus?

Ray Perman: The mission of the British Business Bank is admirably clear and can be expressed in one paragraph. The missions of the Scottish National Investment Bank take up considerably more than that. Those missions will sometimes gel together—we can think of ways in which decarbonising the economy and improving productivity can be in alignment—but they will sometimes be in opposition to each other. Sometimes, two missions will both be valid but will have competing claims on the budget of the Scottish National Investment Bank. There is not a laser-like focus, however desirable those missions are or whatever impact on the Scottish economy they will have.

Raising productivity is the search for the philosopher's stone. When you do the numbers, you might say, "Well, if we could raise productivity from 1 per cent to 2 per cent, all our problems would be over," yet people have been trying to do that for the past 50 years and it is very difficult. It will be terrifically difficult. David Eiser talked about the decline of the North Sea industry, particularly around Aberdeen and that area. Some companies there have very high productivity and, if we lose those skills and companies—if they go elsewhere—that will be a loss to the Scottish economy.

There are things that we can do, such as trying to encourage companies to look for opportunities outside the North Sea, that would benefit the Scottish economy. The other thing that the Scottish Government—or any Government—could do to improve productivity over time is provide education and training. When you look at ways in which Governments can influence productivity, it really comes down to infrastructure and education and training. In the end, it has to be the private sector that delivers the productivity.

Daniel Johnson: Do Susan and David agree that we need to both prioritise enterprise support and increase its focus? Would you support that proposition?

Susan Murray: I would like to answer your previous question along with that one, if that is okay.

Daniel Johnson: Please do.

Susan Murray: You asked about the need for a laser-like focus. For me, that is about increasing the number of taxpayers and getting them to pay more tax. In your earlier question, you mentioned fairness, but we have not talked about in-work poverty, and, for me, that is an immediate way to address it. If you can get more people earning more money, so that they are not living in poverty, that will save a massive bit of the budget. Huge amounts of money are going into support for people who are in jobs.

I am not sure whether we know, at this time, whether the national insurance rise will lead to lower numbers of employees, but it may disincentivise employers from taking on additional staff, because they will have a bigger cost. If that means that businesses use more contractors, what will that mean for the Scottish budget? Ideally, we want more PAYE in order to get the Scottish tax take up, do we not? If that is what we want, how do we get it? We get it through higher wages, more hours and all the things that you mentioned in your question, but those things are not in the control of the Scottish Government—they are down to every business owner.

Taking on staff is a really good way to get more resilience in the system. If people are in insecure work, they are much less able to cope with shocks, which means that, when there is a shock such as Covid, it will hit them harder. That is what we have seen in the data. People who are less able to cope have had to spend more resources, whereas the ones who already had more resources have been able to consolidate and are now spending on nice things.

Daniel Johnson: Are there any final thoughts before I move on?

David Eiser: Not really. This highlights the huge challenges in making policy decisions when all policies could potentially raise productivity and income growth but also have an impact on inequality and distribution. Sometimes, policies will do more of one and less of the other, and some policies will contribute to one aspect but have a counter impact on another. It is incredibly complicated and difficult stuff—we should not pretend that any of it is easy—but we need to get better at scrutinising the Government's justification for its different policy choices and how those will impact on those sorts of outcomes.

12:15

John Mason: I will build on what Liz Smith and Daniel Johnson said about the fiscal framework. Is there a fundamental problem? The point has been made that we compare ourselves with the rest of the UK and, if we cannot grow as fast as the rest of the UK, we are disadvantaged. The rest of the UK is dominated by London and the south-east. The figures seem to show that we can compete well with the midlands, the north-west and any other part of the UK, such as Wales or Northern Ireland, but that we struggle to compete with London and the south-east. Is that a fundamental problem that we need to tackle?

Ray Perman: You are absolutely right. If we look at the regions of the UK—including not only the devolved nations but the economic regions of England—which the Office for National Statistics has done only once in recent years, we see that Scotland is not dissimilar to the majority of the other regions. The outliers are London, the south-east and the eastern region around Cambridge, which produce the bulk of the growth in the UK economy. To a certain extent, we are dependent on the growth rate in those regions.

John Mason: Might that suggest that we should try to get a different relationship, so that we do not compete so much with those areas?

Ray Perman: That is where the complexity of the fiscal framework becomes quite difficult. Most of the Scottish budget still comes in the block grant, which is determined not by relative growth rate but by population share. To that extent, Scotland does pretty well and is insulated from the differences in growth that you talked about. However, we run into problems with differential rates when we have devolved taxes. It is in everybody's interest to grow the Scottish economy more quickly and more fairly, but the question is how we achieve that.

John Mason: The point has been made that we need more taxpayers—therefore, more people. We are not having enough kids, so is the only answer to have more immigration?

Ray Perman: That is a massive question. I think that, after the second world war, the French Government had an incentive scheme to improve the birth rate. Perhaps we should do that. Certainly, immigration did a lot to improve not only the size of the Scottish population but its age profile. We have not touched on the ageing workforce, but that is an issue. The same is true of the loss of immigration through Brexit, Covid and economic recovery in, for example, eastern European countries, where there are now more opportunities for their citizens at home than if they go elsewhere. That will all impact on the Scottish economy over the next few years.

John Mason: I do not know whether Ms Murray wants to say anything on that. I also have a question specifically for her. We talked earlier about how complicated the fiscal framework is. Is it inevitable that it would be more unfair if we made it simpler? Are we balancing fairness against complexity, or is that not a fair thing to say?

Susan Murray: I do not understand why that would be inevitable. I like nice, simple things. I like things that people can understand and talk about.

We talked about business growth rates. To go back slightly, I note that we are doing all right on business formation in Scotland; we have a higher rate of business formation than the rest of the UK at the moment, and we were doing okay up to 2020. That is the Covid year, but when I looked at Companies House formation data, I found that Scotland was still forming significantly more companies than we were closing. That might just be because of the furlough scheme, and there might be things to come, but there could be good signs in the figures that change is happening.

On the fiscal framework, I am not sure that complicated always means better. That is my view.

John Mason: I will press you on that and will use a different example. Income tax in this country is horribly complicated and the intention has been to make it fairer, so we have many little exceptions, reliefs and all the rest of it. Was it intended that the fiscal framework would make arrangements fair, which is why we are linked to this and to that? We have ended up with something that we struggle to understand and which the public probably do not have much chance with.

Ray Perman: I am sorry if I am jumping in, but let us not get hung up on the fiscal framework. In the past year, a number of things have been done regardless of the framework. Extra funds have been pumped into the Scottish economy to deal with the pandemic. They have been fudged into the fiscal framework as Barnett consequentials but, essentially, the money has been made available. We have the Barnett guarantee, which was never envisaged in the framework.

It is the political relationship that is important. I go back to what I talked about earlier—mending the political relationship between the Scottish Government and the UK Government, or between the devolved Administrations and the UK Government. In the end, it is the politics that matters rather than the various clauses and calculations in the fiscal framework.

Susan Murray: The legacy report from the committee's predecessor is interesting, because it shows a number of things that now influence the fiscal framework that did not influence it when it

was negotiated. That is a sign in black and white that the fiscal framework has become more, rather than less, complicated. If we are to look at it again, it would be good to consider how to simplify it.

John Mason: I am up for that. Does Mr Eiser want to respond? I am sorry not to have given you a chance yet.

David Eiser: Your first question was about fairness in the context of how the fiscal framework appears to put Scotland in competition with the rest of the UK, including London. One thing to bear in mind is that the block grant is still determined by the Barnett formula. I think that all parties in Scotland support that—they certainly did at the time of the Smith commission.

The Barnett formula allocates to Scotland a population share of increases in comparable spending in England, wherever in England the revenue to support that has come from. In a sense, the block grant adjustments try to offset that, so that once income tax is devolved, Scotland gets a share of increases in Scottish income tax revenues and not a share of growth in English income tax revenues—including revenues that are generated from growth in London.

That is the principle. An easy interpretation is that that looks as if Scotland has been put in a race against a part of the UK economy whose structure is very different. However, there is a basis for what is going on.

As for simplicity, it would be great to make the fiscal framework simpler. I argue that all aspects of public finances are incredibly complicated, but the fiscal framework is probably one of the simplest. It is simpler than the allocation formula for local government in Scotland and in England, and it is simpler than how we allocate funding to health boards. As John Mason suggested, the framework is simpler than the tax code for any individual tax that we care to look at, including land and buildings transaction tax, which is incredibly complex when we get into the detail of reliefs. The aspiration for simplicity is sensible, but simplicity is always hard to deliver in practice.

John Mason: I would like to return to a point that Ray Perman made, which was also in his submission. I think that you used the term "Barnett guarantee". Some people have said that the Barnett formula has worked through the pandemic, and that that is what has given us the money that we have used. Are you suggesting that that was bypassed? Can you tell me what you mean by "Barnett guarantee"?

Ray Perman: As I understand it, the Barnett guarantee lasts only for this current year. I think that there is a mechanism in the fiscal framework for in-year recall of unspent funds. I am looking to David Eiser, who is the expert, to confirm that. I

see that he is nodding his head. However, as I understand the Barnett guarantee, the Chancellor of the Exchequer recognised that we were in serious and unusual times, and said that the money would be given and not taken back. That guarantee has not been extended into future years, but if the pandemic continues to have an impact, that might be something that could be discussed.

In the end, the issue comes down to the relationship between the Governments. Earlier, I alluded to borrowing and to spreading the adjustment on forecasting over time. A number of things can be done if there is good will on both sides.

John Mason: You have stressed that point quite a lot, so I take that on board.

I have a final question, which is on a completely different subject. One of the submissions—I think that it was the Royal Society of Edinburgh’s paper—mentioned inflation. Is that something that we should be worried about, or will it just go back to 2 per cent, so we will be okay?

Ray Perman: Again, I say that David Eiser probably knows much more about that than I do, but my impression of inflation is that it always increases costs before it increases revenue; we notice prices going up in the shops long before we get an increase in our salaries.

Currently, we are seeing a high level of inflation in construction costs, for example. That is partly because of Brexit and partly because of the pandemic, which has led to greater increases in costs in that sector. Other cost increases will feed through to the economy, which will, in the short term, raise costs for the Scottish Government.

In the short term, the inflation that we are seeing is bad, but in the long term things might even out, when inflation increases wages as well as prices.

David Eiser: That is exactly right. I saw the evidence from the Scottish Fiscal Commission implying that, in the long run, inflation that was slightly higher should mean that things even out in terms of increased revenue versus increased costs. However, there is potential for asymmetries in timing and how inflation feeds through into cost pressures, relative to budgets.

I will make a quick point about the Barnett guarantee, in relation to the question about fairness. The Barnett guarantee was an important and welcome part of the Covid response in 2021—it was a direct response by the UK Government to concerns that were raised by the Cabinet Secretary for Finance. I am sure that the possibility of extending that guarantee is something that the Governments will want to discuss as part of the fiscal framework review.

The UK Government would probably make two points. One is that, in normal times, the clawback tends to be relatively small—it does not make much difference, so it is perhaps not worth worrying about. However, during the pandemic we were experimenting with completely new forms of business grant support and had no idea what take-up would be, which meant that there was a risk that the UK Government could have committed a large amount of spending only to find that uptake was low, so the amount of money that it could have clawed back would be large. That might not be such a risk in the future.

The other thing that the UK Government would stress is that one of the effects of the guarantee is that it has ratcheted up the difference in spending in Scotland and the other devolved Administrations relative to England. In England, what has mattered is actual outturn spending, whereas in the devolved Administrations what has mattered is the original spending plans, which are not adjusted back to reflect outturns. The UK Government could stress that point of unfairness when it argues for the guarantee to end. However, if it says that that is the reason why the guarantee should not continue, that strengthens the case for the Scottish Government having additional flexibilities in other areas—in borrowing and so on.

12:30

Michelle Thomson: Susan Murray will not be surprised to hear that I want to follow up on her comment about unregistered businesses. It was a fair comment. My perception is that a fair percentage of those businesses would be led by women. Can you put a bit of meat on the bones of the comment that you made on that, before I move on to my main questions?

Susan Murray: That was from a Scottish Parliament information centre report on Scotland’s business base, which was mentioned in the previous session. It is an absolutely fascinating report; I recommend that everyone read it.

There is potentially an opportunity. Prior to doing what I do now, I ran a consultancy. I did not employ anyone; I was a one-woman band. That fitted in with my childcare needs, which is why I did it. The life and death of that business took only a short time, but why? It was because flexible working options either did not exist, or did not meet my needs. There is a very good lesson to be learned there, but not in relation to the question that you asked, which is how can more business owners be encouraged to take on more staff—

Michelle Thomson: Can I just follow up on that? It almost sounds as if our failure to recognise such businesses is embedding systemic issues in our economy. Through my questioning, it has

become abundantly clear to me—I might previously have said that it was clear, but I am now quite shocked by it—how systemic the issues are, no matter how unintended they arguably always are. It has also become clear how important it is to understand the issues if we are to understand the role of women in business and enterprise creation.

I will move on. I posited a question to the earlier panel on the back of what all of today's witnesses were asked to submit to the committee, and I will ask it of all three of you. If you were to revisit your submission and say how the Scottish Government budget should address the impact of the pandemic on women-led businesses—if the question were narrowed down to that—how would you answer?

Ray Perman: First, I agree absolutely that women-led businesses have always been short-changed in the Scottish economy. There was a news item about that the other day, and my wife suddenly said, “Well, I wrote a paper on that for Scottish Enterprise,” then went and found it. I was shocked to find that she had written it 30 years ago. The problem has been recognised for a very long time.

Women are not alone: we also short-change businesses that are started by people from ethnic minority communities and by young people, and we short-change businesses that are started by disabled people. We must look for growth where we can find it, and women-led businesses have great potential. I will go back to my experience with Scottish Enterprise; I know that there have been a number of initiatives that specifically targeted women-led businesses. It is something that the Scottish National Investment Bank could look at very seriously.

Susan Murray: We considered the matter recently in a research report, because just how much of a barrier there was had come out in our previous research, in the action project. When we looked at the data, it was a bit of a shock to see where venture capital goes. It really blew my mind to see that only 1 per cent of VC goes to women-led businesses, although we have a fairly reasonable VC situation in Scotland. We then looked at angel investors to see whether there was more diversity in their funding. There was—they are making different decisions. However, when we looked at who led the big investment companies, we saw that they were still the kind of people that one might expect to see in those roles, and we saw that they were making the kinds of decisions that one might expect them to make. The Scottish Government has had a policy on the matter since 2012, and there is policy coming from Westminster, but we are not seeing change.

What is there to do? Mr Gibson mentioned that cultural change is difficult, but we could set

targets, or it could be a criterion in funding applications that organisations have a gender policy. However, as Ray Perman said, it is not just about gender but is about diversity of all types. There is definitely a missed opportunity in Scotland because of how we form businesses and whom we fund.

Michelle Thomson: I will bring in David Eiser shortly, but I first want to bring out Susan Murray's important point about what we can do. Although I recognise and agree with the point about the role of private businesses, perhaps the Government can use conditionality. People are talking about that much more frequently, often in relation to net zero, but it could be used much more. We have business organisations that do not even routinely disaggregate their data by gender and then interrogate that, which seems to me to be utterly fundamental.

Both of the other witnesses can come back in after I have given David Eiser a chance to comment, but my point is that it is incumbent on us to try to assist with potential policy options or ideas. Like Susan Murray, I like to keep things simple, so for me it is about what the difference would be that makes a difference, while recognising the huge complexity. David, do you have any thoughts to add on this area?

David Eiser: The lack of diversity that you highlight is incredibly important and a critical issue to address. I am not close enough to what the evidence says about the barriers to feel that I can make a policy recommendation on that.

Michelle Thomson: I will keep asking the question. Just to finish off on that theme, I will give a simple example. I have been enjoying reading the document by Benny Higgins titled “Financing Scotland's Recovery”. Just as a follow-up, I thought that I would do a wee search in it on references to women and gender, but there is not one mention of those in what I regard as a very good document. That omission is utterly systemic in terms of lending and access to finance and it is an even greater issue than the figures that Susan Murray quoted for venture capital.

I will move on to a related issue. In our conversation, we have touched on focusing on outcomes, and a number of good points have been made about how the fiscal framework perhaps affects outcomes because we need to run a balanced budget rather than focus on a consequentialist ethical approach, if you like. Susan, you commented in your written submission on aligning the national performance framework with the United Nations sustainable development goals. I know that some work is being done on that. It is perhaps about having, as we have discussed, a human rights and diversity focus. Would that alignment go some way to starting to

give us more outcome focus in what we are trying to do? Perhaps my question is: how do we get that outcome focus by using the UN SDGs and so on?

Susan Murray: As I understand it, the national performance framework was loosely based on the SDGs to begin with, so I think that they are embedded in it. What is different is what we do with the data when we measure it. If this was a business, I would look at it as an improvement framework: there is lots to do and we need to roll up our sleeves and get on with it. How do we collect the data? There is lots of debate around that and whether we are collecting the right data, but at least we are collecting it.

Where I see an opportunity—this relates to something that Ray Perman mentioned—is in intergovernmental relations. The UK Government has also signed up to the SDGs, so is there a way to use those as a common language for some of the negotiations? However, as far as I am aware, there is not an equivalent improvement framework for the UK Government to know whether the same metrics are being used and can be compared—I am not really sure about that.

When we have a common language that other people understand—we now have businesses using SDGs and local government talking in those terms, too—I would not want to change that framework. I agree with John Carnochan about starting where you are, using what you have and doing what you can. Some people say that there are loads of problems with the performance framework, but there is something there that we can use and measure, so it is a really good place to start.

To go back to the previous question and Michelle Thomson's point about the systemic issues, we were shocked when we published research last week—we track all the data on our research, including who reads it—to find that the research has been read a lot more by women than it has been by men. An American professor called Professor Linda Scott has written a book called "The Double X Economy—The Epic Potential of Women's Empowerment", which I recommend everyone reads. I find it fascinating because it links gender, productivity and the economy and talks in a different way about them. It might help people who do not understand why free period products matter to productivity. It gives a sense of how things are interlinked and why the NPF is crucial. One bit of the economy can have a knock-on effect on something else and vice versa.

Michelle Thomson: Post-Covid, there is an opportunity for everyone to think differently.

Does any of the other witnesses have any final reflections on any of the themes that I have touched on?

Ray Perman: Susan Murray has summed up the matter well. Coherence in Government is always welcome.

Michelle Thomson: Thank you.

Douglas Lumsden: It has been a great evidence-taking session so far. We have spoken a lot about growth. I want to get your opinion on growth deals and city region deals. Are they working? Should the Government continue with them or should we do something else?

Ray Perman: I am not sure that I fully understand the question.

Douglas Lumsden: Are city region deals the right way to try to improve growth in the economy? Are they laser-like enough?

Susan Murray: We have not done any detailed work on that, but I can recommend someone you can call who has a lot of opinions.

The Convener: Name them.

Susan Murray: Professor Duncan MacLennan wrote a commissioned report for us, "A Scotland of Better Places", and has been heavily involved with some of the deals. He would be able to give you a lot more evidence.

The Convener: That is helpful.

Douglas Lumsden: I have a question on tax policies for growth. Are the right policies in place on non-domestic rates and corporation tax or should we consider something else?

Ray Perman: As David Eiser has said, tax policy is a much wider issue than the fiscal framework and should not be discussed only in that context, because it has implications for society as a whole and for the economy. We need a national debate on how quickly we want to move to raising more of Scotland's own revenue through tax. As I said, it is desirable to do so, but it brings inherent risks, and some of the implications might not be obvious at first sight. We need to have a national conversation about tax policy and we need a lot more research and information about it.

Douglas Lumsden: Does that apply to business tax as well as personal tax?

Ray Perman: It does. The reform of business tax is complex. The UK Government has just introduced a new tax on employment without, as far as I can see, much research and evidence behind it.

Douglas Lumsden: The David Hume Institute submission talks about

"devolving resources by putting more power in the hands of local communities."

Is that happening or is the opposite really happening?

Susan Murray: It is happening in different ways in different places. That line is out of the report that we commissioned from Professor Duncan Maclennan. As part of the action project, we spoke to thousands of people throughout Scotland. Specifically, we conducted small group conversations with about 20 to 30 people from very different backgrounds in some communities. We contrasted those communities and found that, in some places, things were happening really well and, in others, they were happening completely differently.

It depends on where you are. For example, some communities have access to participatory budgeting, but others do not. Equally, there are different levels of capacity in communities to deal with involvement in participatory budgeting, so it feels like part of a journey. In some communities, where there has been a long tradition of involvement in decision making, people are much more able to make their voices heard, whereas people who are used to having things done to them feel less able to take part in a process.

There is no single solution. That came out strongly in Duncan Maclennan's report.

The Convener: We have touched on demography. Last night, I was reading this week's edition of *The Economist*. In the Caucasian state of Georgia, there was a particular concern about the fertility rate, which had fallen to 1.6 per woman. The Orthodox patriarch said that he would personally come round and baptise anyone who had a third child and, within a year, the fertility rate had gone up to 2.1. Perhaps someone should give Jim Wallace, the Moderator of the General Assembly of the Church of Scotland, a call—that might help.

12:45

Next week, we will take evidence from the Deputy First Minister on the national performance framework. Scotland was one of the first places to introduce such a framework and we all accept that it is a good tool, but is it doing what it says on the tin? I put the question to Susan Murray first, because the issue was included in her paper. Is the NPF influencing Government policy in the way that it should by focusing on outcomes?

Susan Murray: Yes, it is doing that, but it could do more. It is very tricky to collect the data to track long-term outcomes. I remember being in a session a few years ago with Toby Lowe from Northumbria University, who had done a lot of work with many bodies in Scotland to see whether they were tracking the right outcomes. Funders in Scotland have been looking at that in particular. For example, one organisation wanted to reduce the amount of litter in its area. To track progress

on the outcome, it was tracking the number of tickets issued for litter fines. However, that does not show whether there is less litter. That is the problem with the NPF. How do we get the data back that tells us about the long-term outcomes? We are on a journey with that.

The Convener: David, the NPF has been around for some 14 years, so do you think that there are some transparency issues in relation to the NPF and how it works across Government?

David Eiser: In part, that simply reflects the fact that, as Susan Murray mentioned, identifying and tracking the impacts and outcomes of Government interventions is incredibly difficult. In general, the evidence needs to be accumulated over time. In recent times, when we have been required to make policy very quickly, it has not been easy to think about how we can identify or forecast what sorts of outcomes we will get from policies. It is very challenging. It would be worth sitting back and appraising that in more detail.

We are learning a lot at the moment, but there are clearly some risks in the process. We are throwing far too many assessments at things and it is all getting very complicated. We have different budget assessments for carbon, equality and poverty as well as having the national performance framework and various Government approaches such as those on inclusive growth and wellbeing. How all those things fit together and influence action is not particularly clear.

The Convener: Ray, is there anyone who knows how all those different things fit together?

Ray Perman: I have not looked at the national performance framework lately but, the last time I looked at it, I was amazed by how many targets and desired outcomes there were. It could be simplified. The great thing about the UN sustainable development goals is that they are fairly simple. There is a limited number of them and they are principles rather than detailed requirements.

I would like to think that every new policy of not just the Scottish Government but any Government goes through the filter of the policy maker thinking about how it fits with the national performance framework or the UN sustainable development goals before implementing it, but I tend to side with David Eiser in thinking that that is often forgotten until, in the aftermath, the policy is fudged into the performance framework, rather than the process happening the other way round.

The Convener: My final question is on an issue that arose after you had made your submissions, although Ray Perman touched on it earlier. How will the new national insurance increases impact on the Scottish budget and the economy?

Ray Perman: It is very difficult to say. There are a number of reasons to criticise that particular tax rise, which have been well rehearsed. However, it will benefit Scotland, in that we will get more money than we would have done if we had raised it in a devolved manner. It is ring-fenced money that we would like to think that the Scottish Government would have spent on health and care anyway, but it is another example of money being provided by the UK Government in a prescriptive way, which I think is a retrograde step.

We do not yet know what the impact on employment will be. One hopes that it will not be significant, but we just do not know.

David Eiser: There are a couple of issues, one of which is how the funding is raised. There is a case for saying that national insurance is not the best way of doing that. Although a 1 per cent rise in national insurance is just about progressive among those who pay national insurance, it excludes people whose main source of income is through pensions or capital gains, so its fairness could be questioned. Having said that, it is better than nothing. Politically, Governments often find it much easier to raise national insurance than they do to raise income tax.

There is also the question about the impact on the Scottish budget. The proposal will generate substantial consequential for the Scottish budget, which I think will be critical. I mentioned right at the start of my evidence that, before last week's announcement by the UK Government, the outlook for the Scottish budget in the next few years was less good than it was pre-pandemic. Basically, those consequential will bring the outlook for the block grant back to the pre-pandemic outlook, but only just. It will still be an incredibly tight settlement. Those consequential will be critical.

As Ray Perman said, the fact that the money appears to be ring fenced will not create a financial constraint for the Scottish Government in the immediate term, because it will spend much more money on this area of public services than has been ring fenced, so it can always shuffle other things around. However, the principle that the proposal appears to signal represents quite a different approach to how the Barnett formula might work.

The Convener: Susan, I asked you the first question, and you will get the last word. Obviously, the consequential will be rolled out over a number of years. What is your view of how the proposal will impact on Scotland's budget and economy?

Susan Murray: As I said in answer to a previous question, we do not yet know what it will mean in terms of number of jobs created. Will it

disincentivise employers to create new jobs? There is a worry in relation to the Scottish tax take. Will it mean more insecure work, more contract work and, ultimately, more people on universal credit? We will not know until some of the data comes in. Ultimately—we have discussed this quite a lot—the priority for Scotland must be how we get more people in jobs that pay them well enough to live on.

The Convener: Indeed. As I recall, productivity is a balance of skills, attitude, aptitude and capital applied. It is a question of getting that balance right, is it not?

I thank our witnesses. In particular, I thank you for coming to give evidence in person, which makes a significant difference to the quality of the session. That is very much appreciated. We hope to see you all again before too long.

We will have a two-minute break, after which we will consider a letter from the cabinet secretary.

Meeting closed at 12:55.

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