



OFFICIAL REPORT
AITHISG OIFIGEIL

Finance and Public Administration Committee

Tuesday 1 February 2022

Session 6



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FINANCE AND PUBLIC ADMINISTRATION COMMITTEE

4th Meeting 2022, 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:

Kate Forbes (Cabinet Secretary for Finance and the Economy)

Douglas McLaren (Scottish Government)

Ian Storrie (Scottish Government)

CLERK TO THE COMMITTEE

Joanne McNaughton

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament

Finance and Public Administration Committee

Tuesday 1 February 2022

[The Convener opened the meeting at 10:00]

Budget Scrutiny 2022-23

The Convener (Kenneth Gibson): Welcome to the fourth meeting in 2022 of the Finance and Public Administration Committee. Daniel Johnson joins us remotely and should indicate that he wishes to join the discussion by typing R into the chat function in BlueJeans.

We will consider the Budget (Scotland) Bill at stage 2. Before we turn to formal stage 2 proceedings, however, we will take evidence on the Scottish Government's response to the report on the Scottish budget 2022-23. We are joined by Kate Forbes, Cabinet Secretary for Finance and the Economy. Ms Forbes is accompanied by Scottish Government officials Dougie McLaren, deputy director, budget, pay and pensions, and Ian Storrie, head of local government finance. I welcome our witnesses to the meeting.

Members received copies of the Scottish Government response yesterday. Before we move to questions from the committee, I invite Ms Forbes to make a short opening statement.

The Cabinet Secretary for Finance and the Economy (Kate Forbes): I thank the committee for its very comprehensive and helpful report, which I was pleased to respond to yesterday.

Today's amendments have one broad purpose, which is to increase the local government budget next year by £120 million. As I confirmed to the Parliament during the stage 1 debate, due to the changing position last week on this year's budget and funding from the United Kingdom Government, it is my intention to utilise the Scotland reserve to carry forward sufficient funding from this year to allow me to allocate a further £120 million to local government for next year.

As members may be aware, any plan to carry forward funding requires the Government to use the Scotland reserve, which will therefore be presented as an underspend on this year's funding when the final outturn is published later this calendar year. I hope that we can all recall our conversation at today's committee when it comes to scrutinising that position later this year.

The amendments to the Budget (Scotland) Bill deliver on the commitment to give local government an additional £120 million. There are three amendments required to achieve that change. I will not move the amendments right now. I am happy to take any questions.

The Convener: Good morning. In your letter to me of 29 January 2022, you said that the £120 million was:

"only possible following an update in recent days from the UK Treasury regarding our 2021-22 funding"

and that

"this £120 million is not being allocated in 2021-22".

You also said:

"I appreciate this contingency on the UK fiscal cycle is challenging for scrutiny of the Scottish Budget, and would reiterate that it is no less challenging for the Scottish Government's own financial and policy planning."

Will you confirm that it is new money?

Kate Forbes: We think that it is new money. However, as the committee will know, the key is that every year in either late January or early February we have the supplementary estimates, which is the point at which the UK Government confirms the finalised budget position for this year. The challenge arising from our going earlier on our budget—as we did on 9 December 2021—is that we cannot factor in any late movements. Those late movements usually happen in February. That happened last year, when there were very substantial movements of £1 billion and more in the last few weeks of the financial year.

Right now, the supplementary estimates—the formal point at which our budget is fixed and does not really move any further—are still to happen. However, the impression that we are getting from the UK Government—through informal channels between officials, as well as formal channels, which is me speaking directly to the Chief Secretary to the Treasury—is that there are two new pieces of information.

The first is that, although we have been told multiple times that we would probably need to pay back the £440 million—or some of it—the thinking now is that that is unlikely, because there will be spend by the UK Government that generates sufficient consequentials to cover that £440 million. That obviously gives us a bit more leeway and flexibility this year; otherwise, I would have been thinking about how to be in a position to pay back funding. The second piece of information is that there might be additional funding. As I cannot confirm the quantum of that until the UK Government confirms it to me, I have to try to give the Parliament as much information as possible while stressing that these positions have not yet been finalised by the UK Government. That will

happen in a very public fashion when the supplementary estimates are confirmed.

My last little point, which is nevertheless important, is that anyone in my shoes would normally wait until the UK Government had formally announced the position, but I am conscious that local government has decisions to make and that we are going through a budget process. As always with these decisions, there is an element of risk; I am conscious of there being a bit more flexibility and of new information emerging, and ultimately I will have to manage the budget in advance of the formalised position being confirmed.

I hope that that is a fair and comprehensive overview of where we are at, convener.

The Convener: We seem to be doing this dance increasingly as the years go by, which I do not think is satisfactory for anyone concerned. It must be really difficult for you to put together a budget when you have possibles or maybes but no definites until more or less the last minute.

On 12 January, there was a joint statement from all three devolved Governments, according to which

“Finance Ministers in Scotland, Wales and Northern Ireland ... called on the Treasury to guarantee that money allocated to support Covid responses will be provided in full, following a meeting with the Chief Secretary to the Treasury.”

The statement goes on to say:

“The devolved governments are concerned they may not be granted permission to carry over into next year’s budgets any late consequential payments—despite this flexibility being provided in 2021/22.”

You have said that

“along with the other devolved administrations, the Scottish Government remains concerned that the additional funding we have received to mitigate the impact of ... Omicron ... may be subject to future deductions ... More fundamentally, the situation highlights once again that it is not tenable for funding only to be triggered by public health decisions in England.”

I also note that, in support of that, the Welsh finance minister Rebecca Evans said:

“the Treasury hesitated before providing Wales with funding to meet the challenges. When funding did come, we received no guarantee that it would not need to be returned”,

while Conor Murphy, your equivalent in Northern Ireland, said:

“the uncertainty surrounding the Covid funding provided by Treasury is unhelpful. It is ... hugely concerning that Treasury may not permit funding to be carried into next year even if additional funding is confirmed at such a late stage that it prevents it being used most effectively.”

What has been the response from the Treasury in the three weeks that have elapsed since that joint

statement was issued? Do you believe—or hope—that we will be on a firmer footing in future?

Kate Forbes: The short answer is no, but that is where we need to get to. As you have outlined, my position has been echoed by my Welsh and Northern Irish counterparts and, indeed, should be echoed by anybody who cares about effective budgeting across financial years. We need to remember that this is only an issue for the devolved Governments because of limits on carry forward in our fiscal framework. In other words, throughout the financial year, we budget to manage the overall funding available for the purposes that we deem necessary with a view to getting into balance by the end of the year, given the severe limits on carry forward.

What I have sought to avoid over the past two years, with great advice from officials, is a position where funding is not being used effectively, simply because it happens to fall on either side of 31 March. As we all know, businesses continue to need support on 31 March and 1 April; vaccines continue to need funding on 31 March and 1 April; and we continue to need to fund public services on 31 March and 1 April. That arbitrary cut-off at the end of the financial year, which we are now used to dealing with, becomes really challenging if in the last few weeks of a financial year we receive additional consequentials that have not been factored in. Basically, our effective budgeting gets undermined because of those consequentials.

Please do not hear me incorrectly: I am not saying that we are not incredibly grateful for additional funding. The problem is the messaging that we get for weeks on end that, first, there is no more money and, secondly, some money will need to be clawed back, which then flips, in a matter of days, to people saying, “There’s going to be more money.” It is a question of effective budgeting.

The position is the same for the Welsh and the Northern Irish—they want to budget effectively and carefully so that there is sufficient funding. There has been no change in the mechanisms. It looks as if, this financial year, we might again have additional money that we did not expect. Nobody is complaining about that; the issue is the management.

I invite the committee to reflect on the most effective means of budgeting across financial years. That goes back to the fiscal framework, the ability to carry forward and the ability to use the reserve. If we can use the reserve, that is great, but if the reserve does not have enough capacity, that creates a problem. The position now is that, if the reserve did not have enough capacity, the UK Government would say that the funding should be paid back. I could not possibly do that, because I know that the funding is needed out there.

The Convener: To a large extent, the issue makes the argument for multiyear funding and multiyear budgeting, too.

You talked about the fiscal framework. On the independent report and review, your letter of 29 January says:

“Scottish Government and UK Treasury officials continue to work closely to finalise the details for commissioning the report, including on the terms of reference and authorship for the report.”

When do you expect that to be concluded?

Kate Forbes: I hope that it will be concluded very soon. On Thursday, I am due to have a conversation with my UK Government counterpart, the Chief Secretary to the Treasury, about the next part of the fiscal framework review. I do not have a date in mind; final details are being confirmed. We are clear about what we would like to see, and it is a case of negotiating a position.

My sincere hope is that the conversation on Thursday will be fruitful and constructive and will move us forward. A lot of work has gone on between officials on both sides, but it will come down to a finalised agreement between me and the UK Government. Nothing on our side is holding things up; it is just a case of getting a finalised agreement with the UK Government.

The Convener: Yesterday, you wrote to give members an update on Covid-19 omicron business support, on which you have also answered a written question from me. In your letter, you outlined all the money that has been allocated across more than a dozen sectors—from hospitality businesses to museums, galleries and heritage and even the weddings sector. You said:

“Decisions on the allocation of the remaining funds will be confirmed shortly following analysis and consultation with affected sectors on how it can best be targeted, particularly in light of requests for funding to focus now on recovery work.”

Thank you for yesterday’s letter. When can those decisions be expected?

Kate Forbes: As you said, we have allocated the bulk of the funding—it is largely being paid out to bank accounts or applications for it are open. The feedback that we have had from quite a number of sectors—one of the most obvious is tourism—is that, although the initial funding was useful and it was helpful to have that in business bank accounts to address the immediate challenge, they would very much like us to invest in a programme of economic recovery. The retail sector has also been clear about that, and news reports at the weekend covered that.

We are well advanced in developing such proposals with different sectors, and I hope to confirm what we are doing as quickly as possible.

Some sectors would have liked additional funding but, now that most sectors are largely open or trading, even if that is with some restrictions, we should invest in a programme of recovery. As for timescales, I hope to do that as quickly as possible.

The Convener: Some sectors that were doing badly only a few weeks ago are almost booming now, but the difficulty is that a lot of debt has been accrued and some businesses have had to shed staff, for example. Businesses need to replace their reserves, as much as anything else.

10:15

I will move on to the specifics of the committee’s report. I refer you to paragraphs 45 and 46. In paragraph 45, we state that the Scottish Government assumes

“that it will receive £620 million in additional sources of income for the resource budget”.

You have talked about that in detail. However, one of the things that you mentioned—it was touched on during last week’s budget debate—was the ScotWind resource. As you will recall, the Cabinet Secretary for Net Zero, Energy and Transport updated Parliament on ScotWind on 18 January. He said that that resource would

“deliver around £700 million in revenues to the public purse for the initial awards alone.”

He went on to say:

“In addition to those revenues, ScotWind promises to deliver billions more in rental revenues once projects become operational.”—[*Official Report*, 18 January 2022; c 36.]

We would like to pin down how much money that will bring in and over what timescale, as “billions” is an amorphous amount of money—it could mean £2 billion or £20 billion. How much is the Scottish Government expecting to accrue from ScotWind, and over what period? Will that feature in our budget in the next financial year, or will it be some time before that has an impact on our budgeting?

Kate Forbes: I will divide that question into two, because the £25 billion spend on the supply chain is slightly different from the direct revenue benefit from the option fees, which are about £700 million over 10 years.

For next year’s budget, because it was again being produced earlier than normal, and in advance of ScotWind, we identified a prudent estimate of ScotWind fees for next year. As you said, that is included in the £620 million of additional funding for next year’s budget. That funding includes other elements as well, which I can unpack if that is of interest.

That funding is slightly different from the £25 billion figure, which is based on supply chain investment. As you will know, we are intentionally trying to ensure that there is a legacy from ScotWind—which, arguably, is unlike the legacy from other significant industries that have operated in Scotland over the past five decades. That legacy is to build up our supply chain.

Take onshore wind as an example. We know that there has been a lot of scrutiny of the fact that manufacturing is largely done overseas and that we import turbines. We want to do things differently with ScotWind so that we leave a legacy of a Scotland-based supply chain. Therefore, requirements are built into the ScotWind process for winning bids to invest in the supply chain. The commitments to date are about £1 billion per gigawatt of energy generated.

That amount will be slightly more uneven—as you can imagine, a significant investment will be made up front in the supply chain to enable the developers to build the required infrastructure. However, the option fees of about £700 million will be a lot more stable over the 10-year period.

The Convener: There is, of course, a huge, quite magnificent vacant site with a deepwater port that has good grid, road and rail connections at Hunterston, which I am sure would be excellent for manufacturing turbines

I refer you to paragraphs 67 and 68 of our report. In paragraph 67, we state that the Government

“faces challenges in managing its budget where there is a limit on the funds that can be carried forward”.

You have already touched on that in some depth. In your response to the committee’s report, you said that you

“agree with the Committee’s assessment on the challenge in balancing the Budget within a reserve limit which represents less than 2% of our funding, and which falls every year in real terms.”

Will you explain the claustrophobic impact that that has on the Scottish Government when trying to develop an effective long-term budget, given the reducing effect of that reserve because of inflation?

Kate Forbes: Others have probably described that better than I could. I remember one business organisation describing the situation at the end of the financial year as being like trying to land a 747 on a postage stamp. We should remember that the Scottish Government cannot overspend its budget, which means that I have to deliver as small an underspend as possible. It would be a remarkable Government that got down to the last penny of spend, not least in a period of

emergencies, when urgent responses are required.

That means that, for example, any capital that has been delayed for projects needs to be managed using the carry-forward through the reserve. The same applies to any financial transactions money that has perhaps not been able to be drawn down by businesses or organisations that use it. In essence, we take the risk of managing the budget on behalf of various infrastructure projects in Scotland and so on, so we need to leave some room for the management of capital and financial transactions. Also, with resource, an assumption of some carry-forward is already built into the budget.

You can see how that £700 million starts to be eaten away. As we approach the end of the financial year, we need to ensure that there is sufficient capacity in the reserve so that we do not breach it. I think that, when I spoke to the committee previously, I said that there was no forecast underspend on revenue, which was true, but at the time I was trying to factor in potentially having to pay back some of the £440 million, with no additional consequentials coming.

Things have changed quite quickly. In the last few weeks of the previous financial year, we had an additional £1 billion from the UK Government, which meant that we exceeded the carry-forward limit—again, that is not a complaint about additional funding; it is purely about effective management of budgets. Last year, we secured an agreement with the UK Government to carry forward some of that outwith the reserve, and I am certainly keen to seek such an approach now.

Ultimately, I hope that we are all agreed that we need to protect our spending power. There is a lot of need out there for additional funding, which I am sure we can all detail, so, no ifs, no buts, we must protect the spending power. If the flaws of the fiscal framework undermine or erode that, the problem is with the fiscal framework and not with budget management.

The Convener: You talked about the size of the budget. The Scottish Fiscal Commission said that there is a 5.2 per cent reduction in real terms to the Scottish budget. Am I correct in thinking that the £120 million represents about 0.2 or 0.3 per cent of the budget?

Kate Forbes: I will leave it to your mathematical calculations to determine the percentage. However, I think that the overall value of the £120 million is what you said.

The Convener: In your response to paragraphs 83 and 84 of the committee’s report, which are on income tax policy, you said:

“It is clear from the SFC’s latest forecasts that wider economic factors continue to affect Income Tax receipts”.

However, you have not really outlined those factors. Can you give us a couple of examples?

Kate Forbes: I was interested in the evidence that the committee took on the report by the three Davids—I am sure that they are probably somewhat offended by being called that; I mean David Eiser, David Phillips and David Bell—and from experts on the Welsh fiscal framework. I noted the comments on two facts in that regard. First, Scotland is disproportionately impacted by fluctuations in the oil and gas sector, and always has been. That is largely because the north-east and the oil and gas sector have quite a number of well-paid jobs. As we know, higher and additional-rate payers account for a significant proportion of overall income tax revenues so, if jobs in a sector such as oil and gas are affected, there is a disproportionate impact in Scotland, which then feeds through to tax revenues.

Secondly, there is the comparison with the way in which the fiscal framework operates in Wales versus the way in which it operates in Scotland. We have two different forecasters, and we also have a situation in which the fiscal framework does not take into account the unique circumstances for the Scottish tax base.

We need to remember that, pre-pandemic, earnings in Scotland had been growing year on year since income tax was devolved. There is growth there; the question is about relative growth. As I said, there are two issues that impact on that. One is the exposure to particular industries, and the second is the fact that the fiscal framework does not take into account the faster growth in higher wages in London and the south-east, for example.

The Convener: One of the many good things about renewables is that the tax base should be much more predictable and reliable, given that they are not a commodity.

Your response to paragraphs 96 to 100 of our report, in which we look at productivity issues, is quite robust, saying that

“We will shortly be publishing our National Strategy for Economic Transformation”

and that

“without full control over economic policy and immigration, we do not have all the powers we need to address these demographic issues and drive growth in the economy and the tax base.”

You also say:

“On the latest data, Scotland’s GDP per capita is the 4th highest of”

the 12

“UK nations and regions; Scotland’s productivity has increased by more than any other nation or region of the UK between 2007 and 2019; and Scotland has been the top destination in the UK for foreign direct investment outside London for the past 6 years.”

I believe that that last bit of information is from the EY annual report—in fact, I had thought that we had held that position for longer than six years.

I also note your comment that

“under the Fiscal Framework ... strong earnings growth in London and the South East means that our budget is being reduced even while earnings growth in Scotland recovers strongly from the pandemic.”

That is quite a strong response, and indeed it is a lot more positive than what we have had from other witnesses. Is it not the case that, although productivity might have improved in relation to other areas and nations of the UK, it is still lagging behind other European countries?

Kate Forbes: There is definitely a comparison to be made not just between Scotland and the rest of the UK. I certainly do not believe that that is ambitious enough, when you look at the UK’s economic performance against that of other countries, not least those in Europe. We need to lift our eyes and our ambitions beyond comparisons with the rest of the UK. You have, for example, cited the figures for Scotland’s productivity growth between 2007 and 2019, and indeed, as far as the pandemic is concerned, we reflected last week on the fact that Scotland is now back to pre-pandemic levels of growth in gross domestic product. According to November’s GDP estimates, we exceeded the figure for February 2020, and we broadly tracked the rest of the UK through the pandemic years. Moreover, unemployment is lower in Scotland than it is in the rest of the UK.

Although there are very legitimate debates that we all need to have about how we can be even more ambitious and aspirational for the Scottish economy, which is something that I would back completely, we cannot dismiss the strong fundamentals that the economy already has. There is huge potential, but I think that, over the past two years in particular, we have demonstrated that, despite health decisions being taken at slightly different times, we have broadly tracked the rest of the UK. We have also got back to pre-pandemic levels—and indeed did so in the same month as the rest of the UK; unemployment is lower; and we have made good progress over the past 10 years or so in productivity and foreign direct investment.

We all speak to businesses. Indeed, many of us will have spoken to international businesses that have chosen to relocate to Scotland, because of the talent pool, because of the reputation of our universities and colleges and because it is just a

good place to do business in. We need to build on those strengths instead of dismissing or losing sight of them.

The Convener: What is interesting about Scotland in economic terms, though, is its disparity. Some areas are doing phenomenally well while others are clearly not. Will the national strategy for economic transformation focus specifically on levelling up—to use a phrase—areas of Scotland that are not doing as well as the best areas? After all, what we do not want in future is for certain areas of Scotland to lag significantly behind, because that will just lead to all sorts of demographic challenges in the country, with, for example, large numbers of young educated people leaving poorer areas for areas that are already under a lot of pressure with regard to housing and so on and thus causing an imbalance. Will the strategy focus on such issues?

Kate Forbes: Yes, it will. Intentionally, it makes a point of rejecting a UK regional economic model in which London and the south-east essentially power the rest of the country, because that is completely unsustainable and is not, I think, defensible. The danger is that we adopt a similar approach in Scotland. I fundamentally reject that. We need to ensure that all regions of Scotland can participate in economic opportunities and contribute.

10:30

Obviously, national figures could be boosted by focusing on a few areas, but that would be to the detriment of the rest of Scotland. If you believe in a wellbeing economy model—by which I mean a model in which growth or prosperity is a means to the end of lifting people out of poverty, reducing child poverty and achieving health and social outcomes—you need to take a fairer approach that looks at strengths in the Highlands, Ayrshire and the north-east and asks how we can back those fundamental strengths.

Aberdeen and the north-east have a very proud and rich energy history, and parts of the Highlands have a proud and rich history in acting as supply chains. Let us back those strengths. However, what else can we do in Ayrshire, for example? Where are the opportunities? We should be intentional about supporting communities there to maximise the benefits of the assets and resources that are on their doorsteps.

The Convener: In paragraph 108 of our report, we talked about the costs of social security. In your response, you said:

“Difficult decisions will have to be made regarding any new policies, ensuring they are affordable and deliver value for money for the public purse.”

The Scottish Government has deliberately made its social security payments more generous than the UK Government’s, and it has encouraged uptake. How are the difficult decisions that are being made assessed? For example, when you look at £1 of public money, do you consider the gearing effect—how every pound that is spent will have a greater impact in the rest of the economy? How are those assessments made?

Kate Forbes: I will make three brief points.

First, you are right: we have taken a policy approach to social security that is fairer, puts dignity at its heart and encourages the uptake of benefit and welfare support, because we think that there is an inherent right to access that support. That means that we have baked a prioritisation into the budget. We must accommodate and account for social security payments. Those payments fluctuate—that is the nature of demand-led payments—and we need to be able to absorb that. That goes back to the issue that I keep going back to. Do we have all the tools that we need to manage risk?

My second point is about value for money. There is an issue that I am particularly exercised about. If we want to drive reform, the only way to do that effectively is through multiyear budgeting. That comes through the resource spending review. The question that I ask is this: for every pound that ends up in somebody’s pocket, how much does it take to get there? I would far rather that as many of those pounds as possible end up in the pockets of people who need them rather than paying for jobs along the way.

We have looked at, and we will do, quite a number of deep dives as part of the resource spending review with stakeholders as well as internally to consider the issue of value for money. We will start with outcomes—in other words, we will not try to determine budgets on the basis of affordability initially. If the outcome is to ensure that a social security system cares for those who need that, the imperative is for us to maximise the funding that goes directly to those people through the resource spending review.

That was only two points—I rolled all three into two.

The Convener: I am glad that you mentioned outcomes. When I asked the SFC about the £764 million likely overspend within three years with regard to social security, I asked whether the spending of that resource on social security now would have an impact on reducing poverty. The SFC did not seem to think that it would have much of an impact on reducing poverty. The outcome needs to focus on that. If we are spending a lot of money on social security, surely that is about

trying to lift people out of poverty and back into work.

I have a final point. Obviously, I have taken up quite a bit of time. I would like to be able to take more time, but I realise that I have colleagues who are keen to come in.

We covered preventative spend in paragraphs 126 and 130 of our report. You have given a detailed and robust response on that, which I am sure members of the committee appreciate—I certainly do. You have talked about areas of preventative spend, from youth justice and developing the young workforce to the national care service and keeping the Promise. You have also talked about tackling long-standing and deep-rooted inequalities, including investing at least £500 million over this session of Parliament to create a whole family wellbeing fund, investing £200 million in adult upskilling, and spending in a number of other areas of expenditure.

The question that I want to ask is one that we have often asked over many years. John Mason will remember that we asked it of your predecessor John Swinney during the 2011 to 2016 session of Parliament. In what areas will disinvestment take place in order to fund all that? Some outcomes are clearly not what we would desire and some areas of public expenditure are not delivering as we would wish. Are there any less effective programmes that are, in effect, being discontinued and put to one side in order that the funding that I mentioned—and, indeed, the other funding that is detailed in your response to the report—can be invested as you have suggested?

Kate Forbes: That is probably one of the most important questions, which I will obviously answer with trepidation, because the moment that I say in a public place what I will reduce spending on, I can already see—with no offence intended to the Opposition—the press releases being written about how outrageous it is.

I go back to a comment that I made in the chamber about how this requires a genuine and mature debate across the Parliament in which we look at outcomes and make decisions about shifting funding. I know that everybody will look at the budget document and compare last year to this year, and that anything that has a decrease will instantly be jumped on, with politicians—rightly—asked to justify that. That is why this whole discussion sounds laudable but is a very difficult conversation to have.

I will cite an example in the health budget. This year, we have chosen to allocate more of the health and social care consequential to social care. In the past, there has been a tendency for health consequential to go straight into front-line health—and rightly so. However, recognising the

preventative element, we have allocated more funding from those health and social care consequential to social care. The equal and opposite effect is that health consequential that would otherwise have been spent on health are now being spent on social care. However, there is a very justifiable argument for that; if we are looking after those who need social care and providing that care, there is less pressure on our hospitals, so it requires that shift. That is a very real example from next year's budget.

The Convener: I will now open out the session to colleagues.

Liz Smith (Mid Scotland and Fife) (Con): I will pursue a couple of themes from the convener's questioning, as well as one of my own.

As the cabinet secretary knows—she has already given us an answer about it—the frustration for the committee is that it is difficult for us to scrutinise the budget because there are doubts about what is new money, what is old money and what has been transferred across.

However, there is also concern that it is very difficult for us to measure transparency in where the money is going. You cited the example of health and social care; obviously, there is a lot of chat about setting up a national social care system and the expense that that might incur.

The committee is interested to know your thoughts on how we can improve our scrutiny of outcomes and of where, in fact, spending is going—in particular, on budget lines at levels 3 and 4 for local government.

Will you give us your thoughts on those matters?

Kate Forbes: Absolutely. There was a lot in there.

The point about measuring transparency is legitimate. I will cite an example from this year of spending that has, I think, been difficult for the committee and Parliament to scrutinise, and for me to draw lines from. In a spending review year, the UK Government provides us with, in essence, a block net position. In normal years, as it were, we get the breakdown, so we can see to a greater extent what, for example, has been generated as consequential elsewhere and should come to Scotland. We can then argue for how that money should be spent. That is where the national insurance contribution debate has kind of struggled, because the money is not disaggregated.

The other thing to consider is, of course, late consequential. As I sit in front of the committee now, I do not know my final budget position for this year, because that money is still to come.

I absolutely accept that more transparency is needed; the more I get, the more I can pass on. I am always open to the committee detailing where it needs more transparency.

I will move on to improving outcomes, which is of fundamental importance. I know that there are local government colleagues around the table who can probably speak to this more effectively than I can. Perhaps one thing in how things currently operate that we should not do is place so many reporting requirements on local government. It has to report on outcomes from, or delivery on, every single pot of funding that is allocated. That is burdensome and onerous for local government, so I have made a commitment to try to reduce reporting requirements, as part of the resource spending review.

We have those requirements, however, in order to measure outcomes. For example, if investment is for employability and skills, I want to know that it has been spent on employability and skills. I want to know not just that it has been spent on that, but that there are, at the end of the day, people who are closer to the job market than they otherwise would have been, and that we are reducing levels of economic inactivity.

What we report on requires clarity, which we can get on outcomes only by doing deep dives on specific areas. The area that I look forward to getting in about through the resource spending review is employability and skills. We know that we spend substantial sums on employability and skills; nobody can argue that we are not spending the funding. However, as you and I know, businesses say that there is a mismatch between skills and jobs. There are all sorts of other issues, including immigration and our reliance on overseas workers.

At the end of the day, we need to know whether the significant funds that we spend on colleges, universities, the no one left behind policy and other programmes are delivering a net result for businesses. They would certainly say that we could do more. If we are going to do more, that cannot mean just me spending more money; we have to improve the effectiveness of the programmes that receive the funding.

I will make one last comment. This has been a really long answer, for which I apologise. The proposed national care service provides a very good example. At the moment, patterns of delayed discharge differ greatly across Scotland. The funding theoretically goes to each part of Scotland proportionally, but there are very different outcomes and results. There is a question about which local circumstances prove to be challenging. For example, there will be greater challenges in recruitment for Perthshire and the Highlands. How do we create a national care service that delivers

improved outcomes, rather than just shifting pots of money from here to there?

Liz Smith: Thank you for that very full answer. I will respond to a couple of points. One relates to a question that the convener asked you. The relationship between the Scottish Government and the Westminster Government has not been great in terms of each knowing what is and is not on the table. It is the same with the Scottish Government and local government. The convener asked whether you feel that a case is to be made for longer-term budgets instead of yearly budgets. In the stage 1 debate last week, several colleagues pointed to the fact that every year we have exactly the same argument.

In your opinion, would it help if we had projections for, perhaps, three years rather than one year, especially in certain areas? University finance is a good example; research cannot be done on a one-year basis, so universities need to understand for how long there will be funding.

Kate Forbes: In short, I say absolutely, 100 per cent, yes. There cannot just be multiyear projections, though; to go back to your previous question, it needs also to be about multiyear outcomes.

It is very difficult to deliver reform within one year. We have just finished one budget and are starting the one for next year. In order to deliver reform, budgeting needs to be on a multiyear basis. We could have better conversations about outcomes with a three-year budget, instead of schemes having to prove their worth within a year, in which case by the time funding is allocated and a scheme is set up, we are into another budget. I agree 100 per cent about multiyear budgets, but running parallel to that we need to think about what reforms we want to see over multiple years.

10:45

Liz Smith: My last question is about the longer-term predictions for the Scottish economy, which are, as you know from witnesses who have come to the committee, not good.

I heard you say in answer to the convener that one of the concerns about tax take is that we have issues regarding the population of taxpayers. You referred to the north-east, where there is perhaps greater variation. It is also an area where there is, on balance, a highly educated workforce that earns higher incomes. Therefore, we can argue that it is able to produce more, when it comes to the tax take. If the Scottish Government's intention is to reduce the oil and gas industry, what effect will that have on the tax take, which we are all desperate to increase? That has substantial repercussions for what the Scottish Fiscal Commission tells us about deficits.

Kate Forbes: I was quoting David Bell—I have the quotation in front of me—who, when asked, talked about fluctuations in the oil and gas sector over the past two years. We all know that the oil and gas industry is vital to Scotland, but its value fluctuates in line with oil prices and decisions that the industry makes. Scotland is disproportionately affected by that because of the industry's importance to the country.

I had a conversation with some well-known representatives of the north-east oil and gas industry last week. They are making an important argument, which I support, about the need for further diversification. Let us take ScotWind as an example. There is excitement about the supply chain for that because there is great talent, there are great resources and there is, in the north-east, already great investment potential for the transition.

That is already happening. Almost irrespective of what the Scottish Government is doing and has done, industry is already diversifying and considering new opportunities that are on the horizon. That is not an argument to say that there should be anything other than a just transition; I am not making that argument and have never backed it. Industry is already ahead of us in the transition.

My ambition is to grow the tax base—to grow the percentage of tax that each threshold takes—and to ensure that we are less exposed because we have diversified and invested, and have identified our strengths and backed them. I am not saying anything that the industry does not say. It is about creating more well-paid secure jobs; it is not about reducing the number of such jobs in Scotland.

Liz Smith: That is helpful, cabinet secretary. The committee will want evidence that Scottish Government policy changes will, in fact, benefit the tax take, because that is the really serious issue for Scotland in the future.

Ross Greer (West Scotland) (Green): I have one question for clarification from your conversation with the convener, cabinet secretary, and then I will move on to a more substantive line of questioning.

You explained that the additional £120 million that has been allocated to local government was given on the basis that you are confident that the previous instalment of £440 million will not have to be paid back. That leads me to the obvious question of how we reconcile two figures, one of which is almost three times the other. I presume that you were confident in allocating £120 million this year because the previous understanding was that the £440 million would be paid back over a number of financial years. If that is the case, does

that leave us in the situation—I realise that this is grossly oversimplifying the matter—in which that £120 million can be baselined in budgets for future years because you made an assumption that similar amounts of money would need to be paid back in 2023-24 and 2024-25?

Kate Forbes: I clarify that quite a lot of the £440 million was already factored into budgets. For example, it includes funding that we identified for next year's budget but has been paid in this year's budget. It is a complex picture, and it is difficult to draw a line directly from the £440 million.

It is hard to say at this point, in advance of supplementary estimates, but I envisage—I can be corrected on this—that additional consequentials will be generated in health and social care. I mention that as a caveat. Additional funding that is generated by there being more spending south of the border is likely to come from health. An element might come from transport, because the UK Government has invested in transport, which has been affected over the past few weeks, in the same way that we have. That is my understanding.

We have the conversation about baselining every year. I hope that the way to get away from that conversation is through the resource spending review. However, I have heard the calls from local government. I do not know whether Ian Storr has anything to add on local government finance, but I note that the £120 million is not ring fenced, so it can be spent on what local government determines. Things including national insurance contributions will need, technically, to be paid year on year, and pay will need to be paid year on year. I am very conscious of rolling budgets. I do not want to pre-empt next year's budget, but I sincerely hope that we will, through the resource spending review of what local government actually needs, be in a better position well in advance of that, and that we will not still be having this groundhog day discussion about whether things are baselined.

Ross Greer: I will move on. One of my frustrations with the wider debate in Parliament this year—I exclude the high level of scrutiny that is provided by this committee—is that it has, yet again, focused almost entirely on spending, rather than on consideration of where and how we raise money. We can compare that with what was—certainly from my experience in Parliament—the highest quality of debate in any year, which was ahead of the 2018-19 financial year. That was the first time that we collectively, as a Parliament, seriously considered what we would do with the new powers over income tax.

At that point, the Government's approach was to ask all the Opposition parties to provide proposals, which were submitted to the Scottish Fiscal

Commission. Projections were worked up on that basis. My memory is that we could have had five options; in the end, four were submitted. That resulted in a much more informed debate in Parliament and one that was in some ways more comparable to the system that a lot of local authorities use, whereby opposition parties are obliged to produce their own alternative budgets rather than just voting for or against the budget that the council administration has submitted.

Could we open up the budget process to better parliamentary debate if other parties were provided with the opportunity to come up with alternative taxation proposals, and not just alternative proposals for spending?

Kate Forbes: Absolutely. You are right that the quality of debate was higher when we were all basically pushed to a position of ideologically considering what were the best tax options for Scotland, balanced by the need to ensure that we had a sustainable revenue stream. Ultimately, I need to ensure that there is funding to pay for the national health service and so on.

I would certainly be open to doing that; I am always open to ways of improving the budget process. One might argue that, this year, there was less need to engage with Opposition spokespeople because, in a sense, the passage of the budget bill was more secure than it has been in previous years. However, I was still very keen to have cross-party conversations, which I have had with all parties on several occasions prior to and since the introduction of the budget.

If there are ways in which we can strengthen the process—in particular, in considering tax—that will be fine. There is a constant and very live debate on whether non-domestic rates are fit for purpose and reflect the Scottish economy as it currently operates. I am sure that members round the table have different views on that. It is fair that many people ask the question, but the question that I would pose in return is to ask what would replace non-domestic rates.

Ross Greer: I would welcome further discussion of that in the committee.

I will turn to a couple of points that you have made about the resource spending review. In your response to the committee's report, the language that is used around the resource spending review mentions the need to make "difficult decisions". The committee would acknowledge that, given that our report makes a point about the challenging public finance situation over the coming years.

I am trying to get a sense of exactly what is meant by "difficult decisions". I think that we would all acknowledge that if we are to hit the Government's three strategic targets on tackling child poverty, tackling climate change and

economic recovery, it will require greater spending in those areas. All five parties in the Parliament agree that those three areas are important. We might mean different things when it comes to economic recovery, but we all broadly agree that it is needed, and we all agree on the climate and child poverty objectives.

However, that requirement for greater spending means that we need to make difficult decisions—about making savings in other areas, about where else to raise revenues or a combination of both. What is your expectation and intention in relation to that balance of difficult decisions in the resource spending review? Will the focus be purely on areas of spending that are to be disinvested from, as was mentioned previously, or will there be a wider discussion about where the money to hit those targets will come from? Would it come from other areas in the current budget or from other revenue-raising options that have not yet been explored?

Kate Forbes: My priority for the resource spending review is that we improve outcomes. It is a budget process and it is based on affordability, but what we need more than anything to achieve through it are programmes of investment that improve outcomes. The decisions are difficult because of the challenges that face the Scottish economy, which the committee is well versed in, including the ageing population, the changing economic mix and a number of other things including disruption that has been caused by the pandemic and Brexit, which I will not go into.

On the other side, dare I say that I think that we agree on more than we disagree on, across the parties? We cannot ignore those elements. For example—unless anybody corrects me—we all agree that we should pass on health consequential to be spent on health. In next year's budget, spending on the NHS will be £18 billion out of £41 billion, give or take, which is a substantial part of the overall budget. On top of that, there is £12.6 billion for local government. With just two budget lines, we have used a considerable amount of the £41 billion.

Therefore, the question is not so much about where and how we spend and whether the numbers are big enough, but about whether we are delivering outcomes that respond to the challenges, in which all of us are well versed. That is difficult—not just for reasons of affordability, which we need to grapple with, but because—to go back to Liz Smith's question about outcomes—it asks us to question whether the funding that we spend is delivering the most effective outcomes. That is where the difficulty lies.

There are difficulties in relation to affordability that we need to contend with—not least because of what I have just said about health and local

government. The bigger issue is that at the end of the resource spending review I would like us to be in a position to reflect that outcomes are better than they were because of the difficult decisions that we have made.

My last brief point is to call for a mature debate. If we make decisions in order to improve outcomes, and not just for straight money reasons, that will inevitably require some funding to decrease as other funding increases.

Ross Greer: That is all from me, for now. I am keen to come back in later, but I want to give other members a chance.

The Convener: Thank you. The next question is from Daniel Johnson.

Daniel Johnson (Edinburgh Southern) (Lab): I apologise for being remote for yet another week. We are still dealing with omicron in my household.

I have a number of things to ask, not all of which are connected. I will start with a broad question about the approach taken in the budget. For obvious reasons, there is a huge focus on numbers and quantum of funding, but the structure of the budget and the disciplines that surround it are just as important. I would argue that they are probably more important.

If we look at the comprehensive spending review from the UK Government, we see that the block grant increases to £40.6 billion in 2022-23 but that thereafter the increases are very small. That means that they are, in effect, real-terms cuts. That is juxtaposed with the fact that we know that we are carrying significant Covid costs, which I would categorise as recovery costs. Last year, at level 2, we could see the Covid consequential in the various budget lines, but it is different this year.

11:00

I understand the rationale that those costs are lumped in with regular costs, but, in order to manage the budget in 2023-24 and 2024-25, we will have to be able to identify the Covid-related things that we can stop doing because we have recovered or because the response is no longer required. Given that those costs are not specified at that level of detail in the budget, what is the Scottish Government doing to focus on them so that they can be switched off when that can happen and so that it can manage its money and resources in years 2 and 3 of the comprehensive spending review?

Kate Forbes: Daniel Johnson asks a good question and has already explained why that is not identified separately: it is all part of the overall block grant.

I do not think that a lot of the Covid-related spend can be, in Mr Johnson's words, "switched off" in the short term. We can take the recovery work that is going on in justice as an example. There is a backlog of cases, some of them hugely challenging. While the courts are dealing with that backlog, new cases come forward all the time. It will be challenging to work through a backlog that keeps increasing. I cannot see that being "switched off", as Daniel Johnson put it, in the short term. Those working on the justice portfolio have a good grasp of what is required in order to get through that backlog. I have had conversations with the Lord Advocate, the Lord President and the cabinet secretary Keith Brown about that.

Recovery will take some time if we want to see better outcomes at the end of that work. We are now in a situation where Covid-related funding is not exceptional or a one-off. It is not about emergency, one-off, grants whereby we can clearly determine that that spending is a result of something like omicron. Covid-related funding has become business as usual for many portfolios.

To go back to the resource spending review, multiyear spending must be affordable. That is a challenge. Going back to Ross Greer's question, there are difficult decisions ahead. The spending envelope is not getting any bigger to accommodate the additional Covid-related spend, so we must become better at ensuring that our funding delivers the right outcomes.

Daniel Johnson: I could ask follow-up questions about that, but I want to ask about other things. There is an on-going need to identify those things and keep them under review. That is why some of Audit Scotland's points about transparency and about being able to follow money from the budget through to consolidated accounts are hugely important.

I want to pick up on some of the convener's points about ScotWind. There is good news about the sites being developed, but large sums of money are involved. There are two questions. First, there has been a lot of discussion about £1 billion going into the supply chain for every gigawatt generated. That is very vague. Is there more detail about what that will look like? Is that contractually locked into the leases?

Secondly, how has the Government assessed whether the price that it has obtained is of good value? If we assume a 40 per cent yield and a price of £70,000 per gigawatt hour, those companies will generate around £6 billion a year from those sites. The rent will be around £225 million. In total, therefore—I recognise that the calculations are crude—the public purse will receive just 5 per cent from what are very lucrative sites. I recognise that you will not be able to be precise, but has an assessment been made and

has a net present value been identified? How has the Government assessed whether it has received good value for money for the public purse from the sale of the 10-year leases for those sites?

Kate Forbes: There are three aims through ScotWind—and, I suppose, three interests. I have a financial interest in the funding that is available for the Scottish budget. As you will know, we have said that we want to use ScotWind revenues for action that specifically tackles the crises that we face.

There is a massive economic interest in ScotWind. I have gone through the details of the legacy of the supply chain. We consciously, intentionally and rightly built in to the bidding process that requirement—which, to the best of my knowledge, was not available in England and Wales—to leave a legacy in the supply chain. We had the supply chain development statement mechanism in order to ensure that bidders were required to make commitments on the supply chain, and, yes, there are contractual lock-ins, as it were, to ensure that they deliver on those commitments. To go back to my financial interest, from a tax perspective, that much broader view, on investing in healthy, robust and thriving supply chains that create good-quality and well-paid jobs generates an overall revenue that is far better than if we had just taken a very narrow view.

The third interest concerns energy transition and net zero. Ultimately, Michael Matheson has been leading, although I have been interested from an economic and a financial perspective. I would therefore rather take away questions on process and come back to you with robust and comprehensive written advice. Obviously, however, my finance officials have been involved in looking at that question of value for money.

Daniel Johnson: So, has an NPV been calculated in terms of the value for the companies that purchased the lease, and how have you benchmarked what will be received by the Scottish Government—the public purse—in comparison?

Kate Forbes: Throughout the process, we significantly analysed value for money. I am happy to come back with additional information.

The member will know that another two elements need to be factored in. The first concerns the additional costs of developing in the deeper Scottish waters and of connecting to the energy grid in Scotland. The second concerns the alternatives to the process that we have undertaken. Michael Matheson leads on the topic. He therefore leads on the process and has been heavily involved. My officials have been involved when it comes to the revenues and the budget process, but, when it comes to any comprehensive conversation, discussion or questions about

ScotWind, I would far rather that he has the opportunity to respond.

Daniel Johnson: I look forward to receiving that information. However, as we know, net present value factors in those costs—that is how it is defined.

Kate Forbes: Yes.

Daniel Johnson: I would like to ask a follow-up question about business support funding. I think that, as of two weeks ago, £113 million had yet to be allocated. Has the funding all been allocated now? If not, could you confirm the quantum of funding that is yet to be allocated? Further, can you tell us what work is being done to assess the impact by sector? I am aware that the impact on retail was significant, but retail did not receive support in the initial announcements. I noted that the convener described many sectors as “booming”, but that is a relative term, and the importance of the Christmas trading period for retail and hospitality cannot be overstated. Has an impact assessment now been carried out of what the potential consequences of the restrictions might be in terms of business survival and business closures in the coming months?

Kate Forbes: On the overall impact, we have emerging data about business confidence from a number of sources. It is still a bit early to get a comprehensive grasp of precisely what the sectoral impacts have been. However, the Scottish Government’s chief economist is trying to ensure that we have that sectoral understanding as far as possible.

Throughout this period, we have had extensive anecdotal and survey data on the impact of the restrictions, but it is still a bit early to look at the overall economic impact.

On business support, members should have received a note that I sent to all MSPs yesterday—I am looking for nodding heads. That gives a line-by-line breakdown of how much funding has been allocated and how much is unallocated.

In terms of where we go next, I had started to describe that when I answered the convener’s question on this area. There are a number of options around recovery spend on areas including tourism and retail. Most of those sectors are saying that they would rather be open and trading. Therefore, the more that we can do to ensure that they can be, the better.

I am just looking through my emails to confirm that that note has been sent, but I will assume, based on members’ nods, that it has.

Daniel Johnson: I will finish at this point by apologising for not being as on top of my emails as I should be. I had not spotted that one.

The Convener: I should probably have used the word “rebounding” rather than “booming”, but that was a quote from a message that I received yesterday from a constituent of mine who runs a business.

The next constituent—that is not right; it is just that I am always thinking about my constituents. The next member to ask a question is John Mason.

John Mason: I should point out that I live in my own constituency, so I am certainly not your constituent, convener.

We have covered a lot of areas. Liz Smith pointed out that there are certain parallels between the relationship that we have with Westminster and the relationship that local government has with us, so there are lessons that we can all learn from one another.

I am thinking about the year end and wondering whether we can learn lessons from local government. I understand that councils have reserves and, broadly, can even out their year-end balances better by using money that they have been able to keep in reserve. Some of that money is for a particular purpose and some of it is just kept for general purposes. Are there lessons that we can learn from that, which might improve the situation with regard to the reserves that we are allowed to keep in terms of our relationship with Westminster?

On the capital side, we have what I feel is quite an artificial limit of £3 billion, whereas local government has a prudential borrowing opportunity, which seems to work quite well.

In general, do you think that we could improve the fiscal framework by learning from those relationships?

Kate Forbes: The short answer is yes. I go further than that, as I actually cite the powers that local government in Scotland has when I make the case for increasing our powers. Local government is able to determine on the basis of affordability and local needs what to carry forward from reserves and what to borrow, and that decision is for councils, not the Scottish Government, to make.

11:15

John Mason: That was a nice, short answer. Are the Westminster folk open to moving down that route?

Kate Forbes: Quite a powerful argument can be made in that respect. If local government can—as it does—manage its budgets effectively through this process with its highly skilled and trained directors of finance, it cannot be unthinkable that

the Scottish Government is able to do the same. We have had conversations with Opposition spokespeople on this matter, but we think that there is, at the very least, an argument for indexing some of these arbitrary limits and ensuring that, as the Scottish Government budget grows, year on year, if not quite in line with inflation, the limits grow, too.

At the end of the day, any form of borrowing has to be affordable—I have to factor in the revenue costs for borrowing. We are not making decisions purely on the basis of a target or arbitrary cap; I have to factor in the revenue costs, and I do so on an annual basis.

As far as reserves are concerned, such an approach would just allow us to make decisions for ourselves. I do not think that anyone likes this constant debate and discussion and my having to go to the UK Government with new requests to carry forward outwith the reserve or otherwise. If the additional powers were granted—which is something that would not, as far as I can see, cause the UK Government concern—we could make those kinds of decisions on an annual basis.

John Mason: Thank you very much. That was helpful.

With regard to the uncertainty around the £620 million, which has been mentioned, I note that one of the elements is the personal allowance spillover. I realise that that has been going on for quite some time now, although I note from your response that you hope that the situation will be resolved this year. By “this year”, do you mean by March, which is only two months from now, or at some point during 2022? Given how long the situation has been going on, should we be a little bit pessimistic and assume that it will not be resolved soon?

Kate Forbes: As you will know, the principle that the Scottish Government is due compensatory payments has been accepted by both the UK and Scottish Governments. What is in dispute is the quantum. The different approaches lead to very different outcomes. Indeed, I think that I cited the scale of the divergence the last time that I was before the committee.

The issue will also be on the agenda this Thursday, at my meeting with the Chief Secretary to the Treasury. That means that, at that meeting, we intend to resolve two very substantial issues: the fiscal framework and the spillover dispute. You can wish me luck and wish me well in the hope that my negotiating skills lead to a conclusion on both matters and a positive result for the Scottish budget.

John Mason: I am sure that the committee is unanimous in wishing you well on that.

Another area that has already been touched on is that of what the impact on us will be of any announcement of spending at UK level. We accept that last year was exceptional, with huge Barnett consequentials, some of which were guaranteed during the year. I follow the logic that that cannot happen on an on-going basis, although we could probably argue about that. You will have a better understanding than I do of what people at Westminster think about that.

If new money is announced at Westminster for, say, a care service in England, for health or, indeed, for anything, should not those who make the announcement, at the time that they make it, have an idea of how much of that is new money and how much is being reallocated? I assume that when you make a spending announcement, you will have had to think about how much of the money has been reallocated from somewhere else—as you recently made clear with the extra support that was made available—and how much of it is new money from somewhere.

Could the Government at Westminster not do more to give an indication in that regard? As you have said, its position completely changed within the space of a few days. Could it be a bit more open in that respect, or does it just not have those figures?

Kate Forbes: I think that the UK Government does not have the figures. From its perspective, what goes to Scotland is the net position in final consequentials. When the UK Government is to make an announcement, it inevitably wants to see whether any departmental underspend could be redeployed to that new announcement, which might also require new money. Whenever the UK Government announces additional consequentials, the difficulty is that we know that we will get only the net impact and not the absolute figure that has been announced—the amount will not all be additional, which is where the challenge arises in considering what is and is not new. That is one big issue.

You will recall that the UK Government implemented the Barnett guarantee last year, which meant that all funding that was announced was additional. The guarantee was removed this year, and the only reason that I can see for not reinstating it is that the risk to the UK Government is too significant in a year when it wants departmental underspends to be used to manage new announcements.

The most recent discussions, in the past two weeks, might be informative about another aspect. We talk to the UK Government daily—I do not know how often Dougie McLaren and co engage with it to get as much intelligence as possible about where we might end up—but the difficulty is that that intel might be out of date within hours.

I want to be as transparent as possible, but I cannot go public and say, “We got this update in the last hour and we’ll get another update in the next hour.” We cannot keep up a running commentary on what we receive. That is where it is difficult for Parliament to do scrutiny. We know that there are shifting goalposts, but we have to deal with a point in time, and figures are moving all the time.

We try to base decisions on the flexibility that we might have or on the financial position that we might have. We might make a decision—as I did last week with the £120 million—and I might be told the next week that, although we were told that there was additional funding, we have determined that that is not the case.

The UK Government budgets on a Government-wide basis. I do not dispute the challenges for it—it is a substantial Government with multiple departments that have multiple spending lines. We get the net benefit of all that. It is no wonder that it is challenging to get to a position, but that challenge is in a sense offshored to us to deal with.

I do not know whether that answers your question. Does Dougie McLaren want to say more?

Douglas McLaren (Scottish Government): This year and the past year have been pretty exceptional for the flows of money and the volatility of changes through the year. One question is how quickly we will return to normal and how fully we will return to the usual Treasury cycle, when we get far fewer changes, which are at a far lower level, through the year. Having such volatility right through to supplementary estimates is challenging, as has been said.

John Mason: I do not want to be too sympathetic to Westminster, but it is helpful to understand how the process works.

The cabinet secretary’s letter about business support—we certainly did get it yesterday—was interesting. I have a lot of taxi drivers in my constituency, who are always on at me about wanting more business support. When I saw the figures, I was struck by how much the taxi and private hire sector has been allocated. I do not argue that it should get less, but £28 million for the sector is a considerable amount when we look at the figures for other sectors. What is your thinking on why that sector got £28 million?

Kate Forbes: That probably illustrates why it is dangerous to look at the overall quantum without knowing what has gone on underneath. There are a lot of taxi drivers in Scotland. I do not know precisely why but, proportionately, there are substantially more here than there are in England and Wales, for example. The £28 million will

probably deliver about £750 for each taxi driver. The figure for the funding that we allocated for taxi drivers last year is no longer at the top of my mind, but you will recall that they were unhappy with the quantum that they received—I think that it was in the region of £77 million. The reason for their getting substantially more is because there are so many of them.

John Mason: My final question is one that I asked John Swinney when he was finance secretary, so I thought that I would ask you it, too. How many times has an Opposition MSP or party asked you to reduce current reactive spending in order to put more into preventative spending? Have you had many approaches from parties or individuals along those lines?

Kate Forbes: Funnily enough, that does not really feature in the conversations that I have about the budget. Reducing spend does not really make the agenda in those conversations. Actually, there is one exception. I do not mean to call them out but, in previous years, the Greens were always very good at coming forward with proposals to increase spend while also identifying reductions in spend.

The Convener: I think that we could have guessed that.

Douglas Lumsden (North East Scotland) (Con): Cabinet secretary, you will not be surprised to hear that I want to follow on from Ross Greer's point about the extra £120 million for local government. Obviously, that comes from the £440 million, some of which the UK Government is not going to claw back. Ross Greer asked why, if it is not being clawed back, it will not be in the base budget for following years.

Why is the £120 million for local government not being baselined? I think that you said that things such as the national insurance increase will be there year on year, so why is the £120 million not in the base budget?

Kate Forbes: To clarify, the £440 million is a one-off. It is certainly not in our baseline. As far as I know, the UK Government would classify it as Covid consequentials. It is certainly largely one-offs. I cannot think of anything in that £440 million that is baselined. The fact that that is a feature relates to an important premise of your question.

I would certainly like to baseline the £120 million. The reason for my being slightly more hesitant than I might have been in previous years is that we are about to embark on a resource spending review. I sincerely hope that, in that review, rather than talking about what has been baselined, we start from a position of considering local government's need and what budget it needs.

I think that previous years' conversations on what should and should not be baselined will become redundant. This time last year, I was asked repeatedly for baselining figures, and I said at the time that I would be happy to return to those conversations. I am sympathetic. I could say that the money will be baselined. However, the £440 million is not baselined, so we will need to identify funding this time next year to cover the costs that local government has identified.

Douglas Lumsden: I thought that the £440 million was a potential clawback, so it would be just for one year. Is that not correct?

Kate Forbes: Dougie McLaren can come back in on that. We should remember that, when the £440 million was identified, the Treasury said that it did not think that there was enough spend in the UK Government to generate consequentials to cover it and that, if the consequentials that were generated were less than £440 million, we would have to pay some of that back. That is a very different conversation from one about baselining. It is still one-off spending; it is not baselined spending. It is one-off Covid consequentials that do not feature in our block grant.

I do not know whether Dougie McLaren wants to add anything.

Douglas McLaren: The £440 million is Covid consequentials. We had a provisional notification from the Treasury, which said, "Here you go, and if the figure turns out to be lower when we get to the supplementary estimates stage, we will be in paying back territory."

However, last week, we had the new information from the Treasury that the figure will actually be higher, and that gave us enough assurance to commit the £120 million to local government. It is 2021-22 one-off money, so the £120 million for local government is going through the reserve. That is assurance that we have had over and above the £440 million. From the information that we have had, we are not looking at paying back anything at all.

Douglas Lumsden: Staying on that £440 million, are there guarantees for only £120 million of it or for more than that?

11:30

Kate Forbes: There are no guarantees for anything until the supplementary estimates come, which I hope will be next week.

Douglas McLaren: The spring budget revision will be published this week—on Thursday, I think. We will say a bit more about what we think then.

Obviously, we are out of sync with the UK Government. We are trying to do our spring

budget revision and conclude that while waiting for the UK Government's supplementary estimates. We will say more about the financial envelope in the spring budget revision.

Douglas Lumsden: I guess that the best case is that all the £440 million will be available when you set your final budget, not just £120 million of it.

Kate Forbes: Absolutely. The full £440 million is available, but you need to remember that a lot of that was for business support and has already gone out the door.

You will remember that there was a dispute about whether the £440 million was new funding. A lot of that money has already been factored in—for example, the UK Government had previously announced £145 million in relation to a material change of circumstances in non-domestic rates. I could list all the other elements.

The £440 million is not new funding. However, it is the fact that we do not have to pay it back that gives us a bit of flexibility.

Douglas Lumsden: Some £120 million of the funding must not have been factored in, because you have now used that for local government.

Kate Forbes: No. As we approach the end of the financial year, I am always looking at how much flexibility we have. The fact that I do not have to pay back any of the £440 million—even though that is allocated—gives me a bit of leeway.

The UK Government is saying that there could well be more money. Therefore, in addition to the flexibility that I think that I have as a result of not having to pay back the £440 million, the amount of funding could also be increased. I think that that increase will be largely driven by health consequentials, with a little bit of transport consequentials as well. We then get into the territory of that discussion about whether, if that comes from health consequentials, we need to pass it on to health.

I realise that these are quite tricky conversations. Much of this will be clarified by two things. One of those things will be, as Dougie McLaren said, the spring budget revision, which is our finalised accounts for this financial year—for this budget—although there will be more to come, because there is quite a lot of late movement. The other thing will be the spring estimates.

If we already had both those aspects formalised, I could give you specific figures. However, because we are ahead of the UK Government announcement, it is very difficult for me to do so. I am getting a moving feast in relation to funding from the UK Government. That is the territory that we are in.

The bottom line is that I think that there is sufficient flexibility for me to allocate that £120 million, because I do not have to pay back the £440 million and because I think that there will be a bit more room with additional funding. In addition, we are getting to the end of the financial year and I am seeing where there might be underspends that we could use or expenditure that we could move into next year.

Douglas Lumsden: Okay. That might tie into my next question, which is about the £620 million in additional resources. You mentioned earlier that you could unpack that for us if we wanted. Will you give us a bit more detail on the breakdown of that amount?

Kate Forbes: Absolutely. The £620 million of additional funding that we expect to receive—incidentally, everything has been passed through the Scottish Fiscal Commission—includes a number of things. It includes the personal allowance adjustments—I will speak to the UK Government about the spillover dispute on Thursday. It includes ScotWind. It also includes two consequentials that we knew were coming but had not been finalised. One of those is the £145 million that I have just mentioned for non-domestic rates. A slight complication, which makes things more confusing than it already was, is that that money is now part of the £440 million. That funding has been allocated this year, rather than next year. We were expecting to receive it next year, not this year.

I think that that is largely the breakdown.

Douglas Lumsden: If that funding has been allocated this year rather than next year, does that not have an impact on the money that you have allocated for business support? I am trying to understand whether those are two separate pots of cash.

Kate Forbes: The £145 million is part of the £440 million. We have used the £440 million for business support and the self-isolation support grants.

Douglas Lumsden: That is not part of the £620 million for next year's budget.

Kate Forbes: It was part of the £620 million. The difficulty is that, on 9 December 2021, when I announced my budget, that reflected the reality at the time. That reality allowed us to draw down £620 million, which included the ScotWind money, the £145 million that we thought that we had for next year and all the other things that I have mentioned.

The two big things that have changed since the budget was drafted are that the £145 million that we were expecting next year has come this year—it is part of the £440 million; I have funded

business support from the £440 million, as well as some self-isolation support grants—and we have had the finalised position on ScotWind. We had taken quite a prudent decision on ScotWind, because we have to be prudent.

Douglas Lumsden: If you have already used some of that money for business support, does that not leave a hole in the £620 million or, as you mentioned in relation to ScotWind, is there perhaps more than you anticipated, which has filled the potential gap?

Kate Forbes: Yes—of sorts. That probably demonstrates why some of this is quite challenging, because it is such a moving feast.

Obviously, in next year's financial year, I will have to manage the spending commitments within the budget. Putting in additional funding such as the £620 million is something that we did in previous years. It is not ideal, but it allows us to say that we think that we will be able to get a particular amount of funding. It is a very prudent estimate, but it is subject to change. That allows us to maximise spending decisions. It is quite likely that, in-year next year, there will be additional one-off consequentials.

When we publish our budget, that happens at a fixed point in time, but budget management and shifts happen almost hourly. Even since 9 December, there have been shifts, so you are right to say that, since the £620 million was announced, there have been significant shifts. Some things have got better this year that have allowed us to carry forward the reserve, but some things have got more challenging for next year. I imagine that, if I came back to speak to the committee in a week's time, other things would have changed.

Douglas Lumsden: I have another question about business support. A pot of cash has been allocated, and we have seen the breakdown—perhaps Daniel Johnson has not, but the rest of us have. I guess that it is difficult—money is allocated and there is a process for people to bid for it. If there are underspends in those budget lines, will the money be clawed back by the Government or will it be reinvested into more business support schemes? We saw some of that last year—for example, there was a discretionary scheme to which local government had access. Will that happen or will the money come back to the central pot?

Kate Forbes: As you have said, in previous years, as soon as any suitable funding was identified, I redeployed it to new financial support schemes. Now, I would very much like to focus on economic recovery work. We have committed to spend £375 million and my commitment is to spend that £375 million on business support. Some of that will be spent on the emergency

grants that are being paid out, but most, if not all, businesses—even those that have been through a challenging time—would far rather be supported to trade and operate fully than to depend on emergency grants. The commitment is that any unallocated funding will be redeployed to economic recovery.

Douglas Lumsden: That is good to hear.

My final question is on preventative spend. There are difficulties in the allocations between local government and health, for example. The local government review was meant to tackle some of those issues. Is that still the case? Will we see it this year?

Kate Forbes: Yes, it will tackle those things. I am leading on the fiscal framework review for local government, and Tom Arthur will take a lead role in that. My hope is that it will sit neatly alongside the resource spending review. Certainly, my intention is to engage as comprehensively as possible with the Convention of Scottish Local Authorities, even in the run-up to an election. I have a commitment to work with Gail Macgregor on the fiscal framework review and the resource spending review.

Douglas Lumsden: So that will come this year. Thank you, cabinet secretary.

The Convener: Before I let Michelle Thomson in, I have a question. Right at the start of the stage 1 debate, £120 million was announced. Given what you have said about the spring budget estimates and review, can we expect to have an announcement at the start of the stage 3 budget debate?

Kate Forbes: I sincerely hope not.

The Convener: I will not probe any further on that. However, I am sure that I speak on behalf of colleagues around the table when I say that we will be really interested in reading the *Official Report* of this meeting, given the recent discussions back and forward on the £120 million.

Michelle Thomson (Falkirk East) (SNP): The cabinet secretary will be pleased to know that, coming last, I have only a few questions because it has been such a comprehensive session.

We have talked a lot about outcome. Of course, everybody is focused on outcome and efficient and effective spend of public money. To go back to your points about the carry forward, do the limits on carry forward ultimately lead to less effective use of public money? We are talking about the complexities of a budget process, and I am trying to sum up why we should care about that, if we are focused on efficient and effective use of public money. If you agree that the limits lead to less effective use of public money, it would be useful to have some examples of where that has affected

decision making—particularly in capital expenditure.

Kate Forbes: We work tirelessly to ensure that our spending is effective. However, the limits make that really challenging. With six weeks or around two months to go until the end of the financial year, if my conversation with Douglas Lumsden is anything to go by, you see how moveable the parts are—and yet I need to land a £40 billion-plus budget within extraordinarily tight parameters. Inevitably, we could take more effective decisions if we were not trying to shoehorn them into arbitrary limits that do not make sense.

Michelle Thomson: In my old world of consultancy, I would also be adding up the hours that are spent on the toing and froing, because it seems extraordinarily inefficient. All that complexity is, in effect, a waste of public funds.

I have a daft wee question that goes back to the Scottish Fiscal Commission and the committee's comment under point 49 that it

“accepts that there may always be a degree of ‘political spin’ about how the level of UK Government funding affects the Scottish Budget.”

You have come back and made the point that there is no difference between the totality of funding in the Scottish budget document and the Scottish Fiscal Commission one, but that the issue centres around comparison with previous years. You also make the point that the Scottish Fiscal Commission uses estimates of 2021 funding.

My simple question is: given the complexity in those late figures emerging, surely it is better to compare actuals, because the only time that a budget is accurate is when it contains actuals? Will you share some reflections on that? It seems that we are trying to spin plates—and that is not assisting our job. I would appreciate a bit more flavour on that.

Kate Forbes: That is a fair point about comparing actuals. That is the bottom line for Barnett consequential. We do not receive what is announced; we receive what is actually spent. Therefore, we have to wait for the UK Government to know what it has actually spent—which comes very near the end of the financial year—to know what we will actually receive. By that point, we will have had to make the decisions on what we will announce and actually spend weeks or months previously.

I therefore absolutely agree that what matters is comparing actuals. You were talking about this financial year. I suppose that the Scottish Fiscal Commission ultimately has the final say on what we are allowed to actually spend. The Scottish Fiscal Commission's view on what is actually

available is therefore really the most important one.

Dougie is nodding. I do not know whether he has anything to add.

Douglas McLaren: I suppose that that is something that we are trying to broach in the Open Government Partnership and elsewhere. It is about not only putting out more information, but putting out meaningful information.

In the budget document that we publish every year, we certainly use comparability, so we tend to show figures lined up against the figures in the previous year's budget rather than against the updated figures. However, that is also available in the panoply of materials. We are absolutely open to views as to how we do that and how we can do that better. I totally take the point.

11:45

Michelle Thomson: I have one final wee question. You talked about prudent assessment of the potential scale of additional funds. That term “prudent” has a particular meaning. What do you regard as prudent? What margin of error have you built in?

Kate Forbes: The margin of error is what we think is the bare minimum that we are due to receive. For example, in the spillover dispute, we have identified the funding that we think is the baseline. The Scottish Fiscal Commission is the ultimate arbiter of whether that is sufficiently prudent and determines whether it is right for us to assume additional funding.

That is probably the process that we undergo. We did that for the first time last year. In the run-up to the end of the financial year, we kept being told that there would be no more money but then would be given additional funding. We decided last year that it was highly likely that there would be at least £500 million of additional funding. In the event, it was £1 billion or more. That gives an illustration of how we build in a margin of error.

The Convener: Daniel Johnson has a question about unallocated business support.

Daniel Johnson: I would like to correct my oversight from yesterday. What is the quantum of unallocated funds? I have quickly added up the amounts confirmed in your letter, which seem to come to £276 million. Is that correct? Does that therefore leave £99 million of unallocated funds? I would like clarification.

Kate Forbes: Because a little additional funding from sources such as VisitScotland was factored in, the operating figure that we could allocate for economic recovery is £103 million.

The Convener: Those are all the questions from the committee.

I have a question that follows on from those asked by Ross Greer and John Mason and from the heavy criticism that was made of the cabinet secretary's choices during the stage 1 budget debate. During your discussions with the opposition parties, did they come forward with fully costed alternative budget proposals suggesting where budget lines should increase or decrease to fund their demands, or did they just ask for increased spending, regardless of the limitations set by the Scottish Fiscal Commission?

Kate Forbes: All parties came forward with additional requests for funding. They can correct me live on air as to whether they suggested areas where funding should be reduced, but I do not recall hearing about those. All the spending asks were substantial. I did not disagree with all of them—we would all like to see increased spending. In our engagement, there were areas where other parties would like to see us to spend more, but I do not know where the funding would come from.

The Convener: That was going to be my final point. During the stage 1 debate, Jackie Baillie said, with regard to her party's asks:

"We have done the costings and the cabinet secretary knows them. I shared them with her last year and we have shared them with her again this year."

Those proposals have not been widely shared. I certainly have not seen them. Have they been shared? Did you see those costings?

Kate Forbes: I do not recall seeing costings.

The Convener: Jackie Baillie says that she shared them again this year.

Kate Forbes: I think that Jackie Baillie is referring to last year when, for example, social care was fully costed as being in the region of between £1.5 billion and £2 billion.

The Convener: She said:

"I shared them with her last year and we have shared them with her again this year."—[*Official Report*, 27 January 2022; c 91.]

Were those alternative proposals permissible within the funding package allowed by the Scottish Fiscal Commission? If that was not the case, how far outside the margin were they?

Kate Forbes: If you take social care alone—I refer to last year's figures rather than this year's figures, because I have not seen updated figures from the Labour Party—that costing was in the region of £1.5 billion. I do not have headroom of £1.5 billion for social care alone.

The Convener: Daniel Johnson wants to come back in on that.

Daniel Johnson: I feel that it is required. The cabinet secretary fairly reflects last year's conversation, but costs were produced and shared by both sides, if I recall correctly. We presented our assessment of those costs and it was a useful and constructive dialogue. I would be more than happy to share them; they were widely publicised this year and last.

To provide some balance to the issue, the budget's context was one of proposals being presented within a fiscal envelope. There is a point of perspective about what that envelope was and what the carryover for Covid funding from previous years was.

The final point that I make is that the other element to the issue is that the proposals are not necessarily only for recurring funds but are also for alternative approaches to Covid recovery. That is a point of clarification and I would be happy to sit down with the convener at any point and go through my costings and how they compare with the fiscal envelope that was available as set out in the fiscal framework, if that would be helpful for him.

The Convener: I would be delighted by that. That is a very helpful suggestion.

Kate Forbes: On the £15 per hour wage, which Labour was keen for, with a staged approach of £12 per hour initially, our calculation was that £15 per hour would cost around £1.8 billion. If I am being fair, the Labour Party identified the additional Covid consequentials to cover that, but pay is recurring, so that would have impacted this year's budget as well and there is certainly not capacity for anything in the region of £1.8 billion.

The Convener: Unless, of course, other lines of the budget were reduced to meet those costs. Would that be the case?

Kate Forbes: That is right. Again, for comparison, the overall health budget is £18 billion, the local government budget is £12.6 billion and the overall budget is around £40 billion.

The Convener: Michelle Thomson wants to come in.

Michelle Thomson: You will be pleased to hear that I am not coming in on that matter, although that was a very interesting conversation.

I realised that I missed something earlier. Kate Forbes made a point about the additional costs of grid connections when Daniel Johnson was probing about the net present value of ScotWind. So that I am clear, are you saying that those costs are baked into the ScotWind estimates? The cost of grid connections are historically skewed and we

know that that has been subject to a long-running dispute. That could run for another 50 years, even if there is subsequent change. Have you had to factor the additional costs of grid connections into the figures that you mentioned?

Kate Forbes: The options fees will reflect the market's willingness to compete. England and Wales had an open auction and projects in England and Wales are generally in shallower water and off the coast. We need to factor in that Scottish conditions are far more challenging, so projects are costlier to develop. They are often further out to sea, in deeper waters and will probably require the deployment of floating technology, which is still at an early stage of development, and there are higher grid connection costs, so they are relatively more expensive to develop. All those additional costs have been factored in, not by me but by the developers who are bidding for those sites.

The Convener: It has been a long session and I thank the cabinet secretary for her contributions. I now suspend the meeting until 12.05 pm to allow members, the cabinet secretary and her officials to have a break before we move on to our second agenda item. I remind people to wear face masks when moving around the room and the wider parliamentary campus.

11:54

Meeting suspended.

12:04

On resuming—

Budget (Scotland) Bill: Stage 2

The Convener: Agenda item 2 is consideration of the Budget (Scotland) Bill at stage 2. We are joined for this item, again, by the Cabinet Secretary for Finance and the Economy. Her officials remain present for this session but are unable to participate in formal stage 2 proceedings. Members will be aware that three amendments have been lodged. They should have before them the groupings and the marshalled list, which were circulated directly by the legislation team.

Section 1 agreed to.

Schedule 1—The Scottish Administration

The Convener: Amendment 1, in the name of the cabinet secretary, is grouped with amendments 2 and 3.

Kate Forbes: Amendment 1 increases the social justice, housing and local government portfolio authorisation in schedule 1 to the bill by £120 million. Amendment 2 increases the total amount of resources of the Scottish Administration in schedule 1 to take account of that additional £120 million. Amendment 3 increases the overall cash authorisation for the Scottish Administration under section 4(2) of the bill by £120 million. In other words, these amendments give us the authorisation to draw down cash and the authority to spend it.

I move amendment 1.

Amendment 1 agreed to.

Amendment 2 moved—[Kate Forbes]—and agreed to.

Schedule 1, as amended, agreed to.

Section 2 agreed to.

Schedule 2 agreed to.

Section 3 agreed to.

Schedule 3 agreed to.

Section 4—Overall cash authorisations

Amendment 3 moved—[Kate Forbes]—and agreed to.

Section 4, as amended, agreed to.

Sections 5 to 11 agreed to.

Long title agreed to.

The Convener: That ends stage 2 consideration of the bill. Again, I thank the cabinet

secretary for her involvement this morning and for answering our questions earlier.

Meeting closed at 12:07.

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