



OFFICIAL REPORT
AITHISG OIFIGEIL

Finance and Public Administration Committee

Tuesday 10 January 2023

Session 6



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FINANCE AND PUBLIC ADMINISTRATION COMMITTEE

1st Meeting 2023, 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:

Jackson Carlaw MSP (Scottish Parliamentary Corporate Body)

Sara Glass (Scottish Parliament)

Michelle Hegarty (Scottish Parliament)

David McGill (Scottish Parliament)

John Swinney (Deputy First Minister and Cabinet Secretary for Covid Recovery)

CLERK TO THE COMMITTEE

Joanne McNaughton

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament

Finance and Public Administration Committee

Tuesday 10 January 2023

[The Convener opened the meeting at 09:30]

Budget Scrutiny 2023-24

The Convener (Kenneth Gibson): Good morning and welcome to the first meeting in 2023 of the Finance and Public Administration Committee. I wish you all a happy new year.

We have a single item on our agenda, which involves taking evidence from two panels of witnesses on the 2023-24 Scottish budget. First, we will hear from the Scottish Parliamentary Corporate Body on its own budget bid; we will then take evidence from the Deputy First Minister and Cabinet Secretary for Covid Recovery.

For the first panel of witnesses, Jackson Carlaw MSP, who is a member of the Scottish Parliamentary Corporate Body, is joined by Scottish Parliament officials. David McGill is clerk and chief executive of the Scottish Parliament; Michelle Hegarty is deputy chief executive; and Sara Glass is group head of financial governance. I welcome all of you to the meeting.

I understand that Mr Carlaw would like to make a short opening statement.

Jackson Carlaw MSP (Scottish Parliamentary Corporate Body): Good morning to members of the committee, and happy new year to all of you. It is a pleasure—I think—to be back to present yet another budget on behalf of the Scottish Parliamentary Corporate Body.

I will briefly set our 2023-24 budget bid in context. The core bid reflects commitments that have already been made to the committee in respect of our medium-term financial plan. However, given the volatility of the wider economy—and especially inflation—the corporate body has carefully assessed risk to our operations in constructing this year's budget and, accordingly, it reflects a few key aspects that I wish to highlight.

Last year, the SPCB advised the committee that, in the first budget of the new session, we sought to address staffing resources capacity and capability challenges, as committed to the convener of the committee in February 2021, prior to the last election. We confirmed that, following that investment, we intended to steward our resources and manage pressures and uncertainties for the duration of the session. The

budget bid for 2023-24 is consistent with that commitment to steward our resources, and the staffing baseline is exactly in line with the approved bid from this time last year.

We also acknowledged then the emerging volatility in inflation, which has become increasingly volatile in 2022-23 and is the biggest factor impacting on the 2023-24 budget bid. As the committee will appreciate, inflation impacts across all aspects of the SPCB cost base, and current levels are driving cost increases that are largely ahead of those that were forecast in preparing the indicative budget last year for 2023-24, albeit that our bid also reflects efforts to minimise the inflationary impact. The continued inflationary uncertainty remains our biggest financial and therefore operational risk.

On MSP and ministerial salaries, I can confirm that, since we broke the link in pay with Westminster in 2016, we have consistently used the annual survey of hours and earnings—ASHE—as our index, as set out in advance in the scheme. We have resolved to continue to do so. This year, the increase is 1.5 per cent. I highlight that that 1.5 per cent increase is not intended as any form of virtue signalling; we are simply applying the ASHE index at the published rate, and we are continuing to follow that approach. Normally, the figure lags behind increases in public sector pay, so we anticipate that the approach will lead to a higher recommended increase in the forthcoming year. I am happy to discuss any wider questions that arise from that.

I turn to staff cost provision, which provides resourcing for members' staffing needs. We have chosen to adopt a slightly different approach to indexation this year. Since March 2020, the SPCB has indexed the staff cost provision annually using a mix of average weekly earnings—AWE—and the ASHE index. For this budget, applying the same methodology based on the recent ASHE publication derived an increase of 4.1 per cent, which was lower than the increase in the previous financial year. However, with general inflation tracking at more than 11 per cent when we composed the budget, the corporate body chose to adopt only the AWE index figure, which is 5.6 per cent. That results in a rate of £147,000 of resource per member for employing staff.

Following a thorough prioritisation exercise, the total project expenditure budget of £5.2 million is exactly in line with the indicative budget for projects for 2023-24. We have a significant change in the profile of spend in that bid, which has been driven by the need to fund the building energy management system—BEMS—which is at the end of its operational life.

As well as controlling building services such as heating, ventilation and cooling, that system is a

key enabler in allowing the Parliament to achieve its net zero ambitions. The SPCB was taken on a guided tour of the bowels of the Scottish Parliament complex, and the committee would be very welcome to have a tour arranged for it, too, if we have any budding plant engineers among the committee members to rival those from the retail sector who challenged me last year. I hope that that would allow you to understand the importance of ensuring that the building is operating effectively. Recognising the committee's interest in those projects, you will note the enhancements that have been made to schedule 3, which include the inclusion of a new section on multiyear projects.

As the committee knows, office-holder resourcing is an on-going SPCB responsibility. It is also a constantly evolving landscape, as the Parliament continues to add responsibilities or create new office-holders. There were only two when the Parliament was established; clearly, we have far more now. The officer-holders' draft 2023-24 budget submissions total £16.6 million, which is £1.2 million, or 8.1 per cent, higher than the 2022-23 budget, and £800,000, or 5.4 per cent, higher than the indicative forecast. The main changes in those budgets from 2022-23 reflect additional resourcing for the Commissioner for Ethical Standards in Public Life in Scotland, which arise largely as a result of the section 22 order, and the Scottish Human Rights Commission, "to address business needs".

In recognition of the prevailing inflationary challenges and the associated risk to and uncertainty of major spend categories, the budget includes an additional £500,000 in our contingency provision for 2023-24. The SPCB has carefully considered where some of those risks might materialise, and we are assured that that modest extra contingency provision affords us the best opportunity to address those potential risks.

Those are my remarks highlighting the areas in the budget that I thought that I should draw to your attention.

The Convener: Thank you—that was very helpful. I will start off the questions, but I ask colleagues to direct all their questions to Jackson, and he will decide whether to answer them or to take the fifth and palm them off to one of his colleagues.

I will start near the end of your remarks and ask about the commissioners' and Scottish Public Services Ombudsman bids. As you highlighted, those involve quite a significant increase. The money that is being spent on the commissioners and the ombudsman is now £3 million more than it is for MSPs. While the increase in the budget for MSPs' pay is £17,000, as you pointed out, the

increase for the office-holders is about £1.2 million.

You talked about the Commissioner for Ethical Standards in Public Life in Scotland, the budget for which has increased by 40.5 per cent, and you mentioned a section 22 order. On salaries alone, the £463,000 increase is equivalent to 7.4 full-time positions, which is an average of £55,000 for each of those positions. Therefore, will you explain to us the necessity of that because, on paper, particularly at a time of financial challenge, it looks like a very significant increase?

Jackson Carlaw: Two important issues arise here. The first relates to the commissioners and the way in which they are managed and the on-going costs associated with them. I draw to the committee's attention the fact that several more commissioners are currently envisaged either by the Government or as a consequence of members' bills that are progressing through Parliament. It is not the corporate body's responsibility to comment on the righteousness or otherwise of any of that; it is simply the case that the corporate body is left with the partial function of ensuring that the commissioners are adequately resourced and that there is a governance structure. Thereafter, it is for the committees of Parliament to interrogate the individual commissioners on the efficiency with which they are undertaking their responsibilities.

The committee will be aware of the recent history of the office of the Commissioner for Ethical Standards in Public Life in Scotland, with the departure of the previous commissioner after a period of some controversy. As a consequence of that, a severe report was prepared by, I think, the Audit Commission.

David McGill (Scottish Parliament): It was Audit Scotland.

Jackson Carlaw: The report was on the whole conduct and function of the office. In consequence, the Standards Commission has applied a section 22 order—

David McGill: That comes from the Auditor General.

Jackson Carlaw: A series of requirements has been applied, which is quite exhaustive with regard to the burden that is placed on the Commissioner for Ethical Standards in Public Life in Scotland and the way that all complaints—which there have been significantly more—have to be investigated. That has a significant effect on the requirement for additional staffing.

The corporate body has spent some time interrogating the budget. We did not simply roll over and say, "This is a lovely idea," because we are mindful of the additional costs. In all the time

that I have been on the corporate body during the previous parliamentary session and this one, no commissioner has come to me to suggest that they reduce their budget. The corporate body is acutely aware of the increasing budget for commissioners. However, given the responsibilities that have been placed on the ethical standards commissioner, we felt that we had to approve the budget.

In saying that, we have written to the Standards Commission, not to question in any way its right or authority to make the recommendations that it has made, but to seek to clarify—because we want to review such budgets regularly—whether it thought that that level of resource would be necessary for a prolonged period of time. It certainly does not think that it will change its requirements on the ethical standards commissioner in the current financial year or the next. We therefore anticipate that the ethical standards commissioner will need to maintain that level of staffing if it is to be effective in the immediate period ahead. I think that that covers it.

The Convener: It is not a criticism of the SPCB. This is a public meeting, and it is important for people to be able to understand where their money is going.

The other significant point is that the budget of every one of the commissioners and ombudsmen is increasing by more than the increase that you have bid for for the entire Parliament. You are bidding for a 4.8 per cent increase from £128 million to £134.2 million, but every commissioner and ombudsman is seeking to increase their budget by more than that, with the average increase being 8.1 per cent. If we compare that with areas in the draft budget such as justice, transport, local government or wherever, we could argue that the budgets of the office-holders are increasing by more than the budgets of all those front-line services. It is therefore important to put on the public record why that is happening.

The other one that stands out is the Scottish Commission for Human Rights, which has also had a significant increase of 22 per cent. Has there been a big deterioration in human rights in Scotland in the past year, or is it just that the commission is dotting more i's and crossing more t's? What is the situation there?

Jackson Carlaw: Again, it is important to emphasise that we interrogate the budgets carefully. What members see before them does not necessarily reflect everything that the corporate body has been asked to approve. We have declined to approve certain requests for additional funding and have sought to find other ways of achieving the desired outcome.

The Scottish human rights commissioner made a case for two additional full-time staff and, in due course, the corporate body accepted it. I am trying to remember whether the amount was less than the bid that we received.

David McGill: It was significantly less.

Jackson Carlaw: The bid was for significantly more of an increase than we finally approved. We interrogated the bid carefully and declined to accept the full request.

The Convener: I do not want to spend a lot of time on this, but £242,000 is the increase for the SCHR. You mentioned two additional members of staff, but surely there must be more to it than that.

Jackson Carlaw: The figure includes general pay increases for those staff who are already there. As you know, those increases are running ahead of where it was anticipated that they would be when the budgets were proffered last year.

The Convener: I am just trying to put it into context with where the rest of the Scottish consolidated fund is going to be spent. Not many areas are going to get the level of increase that each one of the office-holders has done.

Jackson Carlaw: I am very sympathetic to the point that you make, but to follow up in relation to the second point, we are also looking at potentially having a patient safety commissioner, a victims commissioner, a police investigations and review commissioner, a disability commissioner, an older people's commissioner, a future generations commissioner, HM Inspectorate for Education, and a learning disability, autism and neurodiversity commissioner. If the Parliament decided to progress with all those commissioners, a considerable additional increase would fall into the office-holder responsibility.

Being mindful of that, although the corporate body has not yet arrived at any conclusions, we are also looking at the way in which we might seek to manage that. As members here—I know that Liz Smith was on the corporate body—will know, the opportunity to discuss office-holders comes up as part of our normal agenda of business.

As the number of commissioners is expanding significantly, for us to do justice to that, we will have to give some further thought to the implications. The committee might want to discuss that with other parliamentary committees when consideration is given to the implications and consequences that arise from establishing additional commissioners.

09:45

The Convener: We will move on from that. You have raised really interesting points. I will certainly take them up with other people.

There is a 6.7 per cent increase in the general staffing budget. You have explained some of that, but the SPCB's submission says:

"Staff pay including use of contractors is budgeted at £37.3m, a net increase of £2.3m ... in cash terms".

What is the breakdown between contractors and our own staff?

Jackson Carlaw: We are happy to answer that. I ask Sara Glass to do so.

Sara Glass (Scottish Parliament): We have a really small budget for contractors—about £4,000 is all we budget for—so the bulk of the staffing budget is for our own staff. When needed, we will use contractors to fill positions temporarily if we find that we cannot recruit to the permanent positions, but the amount for contractors in the staff pay budget is very small.

The Convener: That is absolutely fine. It is just that, if the budget is £37 million and the submission says that that is "including use of contractors", we anticipate that it will be a lot more than £4,000. It might have been easier just to have said, "including £4,000 for contractors". That would have saved me having to ask you that question.

In 2022-23, the staffing baseline was increased by £2.7 million. We are told in the submission that that was to help to deliver strategic priorities, which are listed. One of them is to

"enable enhanced public engagement and participation in committee work".

Has that happened and how many staff have been allocated to it?

Jackson Carlaw: We have filled many of the positions that we identified to you in last year's budget but, at the same time, vacancies have arisen in other areas of the Parliament, so we are not currently employing to full strength.

Sara Glass: That is right. We bid for an additional 46 positions last year. That was a net increase of 33 because some were already in place as temporary support. We have recruited to 40 of those, but that has taken time, so we have had vacancies in those positions over the year.

On the allocation of those vacancies, 21 were in the scrutiny group. That is where the bulk of the efforts on the benefits that you described were to be made.

The Convener: Do you mean scrutiny of the post-Brexit constitutional arrangements?

Sara Glass: That was part of it, but the participation and communities team, which supports engagement and more participation in committees, is resourced as well. I think that three dedicated posts went into PACT, which have been recruited to in the current year.

The Convener: What developments do you envisage from that in terms of enhanced public engagement?

Jackson Carlaw: Sorry, I missed that, convener.

The Convener: What developments do you expect from that to enhance public engagement? If you are employing three staff to enhance public engagement, what improvements in it do you envisage?

Jackson Carlaw: As you might be aware, I wear a different hat as convener of the Citizen Participation and Public Petitions Committee, which has been challenged as the lead committee on deliberative democracy. We held an inquiry during 2022 and produced an interim report with 17 recommendations, which are now out to consultation and up for discussion with the Government. They would lead to a considerable change in the way that Parliament engages with the public and the way that the public engages with Parliament. If some of those recommendations were to be accepted, it would lead to some of the biggest changes in our interface with, and the involvement of, the public since the advent of the Parliament.

That committee has done a considerable amount of work, including holding an inquiry that received about 400 or 500 responses. It also set up a citizens panel that met for two residential weekends and held a series of other meetings. It met officials, MSPs and others. That work led to the 17 recommendations.

I have always been intrigued. The citizens panel, and the whole question of public engagement, arose from the former Presiding Officer's commission on parliamentary reform, and was accepted by the previous Parliament. During this parliamentary session—allowing for the delays that arose as a consequence of the pandemic—the panel has now begun its work. I will be interested to see what happens when members who engage with the idea of public participation, and the Government, come face-to-face with the recommendations that arise as a consequence of that. I wonder whether the enthusiasm for all of that will follow through into practical responses from those who will have to cede some of their own power or time in order to make it work—but I am optimistic.

The Convener: There have been many positive comments about the work that you are doing. I

asked the question because I am trying to put information about the allocation of money on the public record. Will there be a reduction in the scrutiny of Brexit? We are now three years into that. There must surely be a change to the scrutiny now. Is that winding up, or is there more work still to do? Is it on the same level? Where are we with that?

Jackson Carlaw: That is probably the most loaded and explosive question that will be posed in Britain today, convener. Is Brexit winding up? David McGill, do you have a view as to whether that will be an on-going concern?

David McGill: That will very much be an on-going concern. Brexit itself clearly has happened, but Parliament's scrutiny of the landscape since Brexit is much more complex and difficult than it was previously. There are many different aspects to that, including relationships between Governments and Parliaments and the interaction of the keeping pace powers with the Scottish Parliament. There are all sorts of different layers that did not exist before Brexit happened. The resources that we bid for were for the long term; they were not transitional resources.

The Convener: In other words, it is "steady as she goes".

A total of £2.213 million is being spent on software and licences. What is the split between software support and licences?

Michelle Hegarty (Scottish Parliament): We have been talking to the committee for a few years about moving towards more cloud-based infrastructure applications. There are benefits to that. We will see fewer spikes in infrastructure and maintenance costs, because we are moving to a rental model and will pay as we go for cloud-based services. That also offers us a lot of resilience.

The committee is starting to see a general reduction in infrastructure costs, but there will be an increase in licensing costs for the cloud. We still have some infrastructure on site in the Scottish Parliament. We also have a physical facility for disaster recovery. One project in this year's budget involves looking at how we can move to an entirely cloud-based system for disaster recovery, should anything happen to systems at Holyrood.

The Convener: I was hoping to find out how the costs for software and licences could be split up. It is like the question about the difference between contractors and permanent staff—I would like to see more directly where the money is going.

Michelle Hegarty: We do not have an analysis of that, but I can come back to you about that split. We do not have a split in the budget at the moment.

The Convener: That would be great.

I have a question about another area—one that I do not think my colleagues will be queueing up to ask. It is about the issue of MSPs' salaries. You mention an increase of 1.5 per cent. I will come back to that. The figure goes from £13.482 million to £13.499 million. I could not understand that, because a 1.5 per cent increase would have been £190,000, but the increase is only £17,000. Are there a couple of folk we do not know about who are going on extended unpaid leave? I am wondering how we got to those figures.

Jackson Carlaw: That is a very technical question. Perhaps Sara Glass can answer it.

Sara Glass: There are other drivers of that change. We had assumed an increase in the national insurance rate. You will remember that that was announced but was then changed, so that came out of the figures. Also, when we put the budget together last year, we had assumed that there would be two additional cabinet secretary positions, which was more than was needed. That figure has come out of the current year's budget and has a roll-on effect on next year's budget.

There are essentially three drivers, rather than just the headline increase in the salary rate for MSPs. The other two things take it down. I have a reconciliation if you need it.

The Convener: It is okay—that is a sound explanation. I should have thought of the national insurance issue, because you mention it in the document in relation to the overall budget. Thank you for explaining that.

I am going to ask about the annual survey of hours and earnings—the ASHE index. Given that the GDP deflator is 3.2 per cent, and consumer prices index inflation is 10 or 11 per cent, how do you arrive at that ASHE figure? I take it that it is about a year out of date. Is that right?

Jackson Carlaw: Yes, those figures are always behind because they reflect what has been happening in public sector pay in the previous period, rather than in the period ahead.

The Convener: What is the point in that? No one would say to any other group of workers—including in the Scottish Parliament—that they were just going to use the inflation rate as it was in late 2021 for calculating pay. How has that figure been calculated and why has that approach been adopted? Who was consulted on that? It seems an anomaly.

The letter says, with regard to staff provision, that

"Based on the recent ASHE publication this derived an index of 4.1%".

However, recognising current inflation figures, the SPCB has opted to use only the average weekly earnings index of 5.6 per cent in order to uplift the general staff provision for members. Why is that not being used for MSPs but it is being used for everyone else? You said that there was no virtue signalling, but it is clear that there is.

I add another point. If the ASHE index says that because inflation is 11 per cent—although by the same time next year inflation might be 3 or 4 per cent, or possibly even lower—MSPs should get a 5 or 6 per cent pay rise, we will just end up with lots of headlines about it being an inflation-busting pay rise, which, by that time, no one else in the public sector will be getting. That seems daft to me from a public relations or practical point of view—or indeed any point of view.

Jackson Carlaw: It is obvious that there are issues, convener; the corporate body reflects on those issues. First, ASHE lags because the data is gathered in April each year for the preceding year, and is then published in October or November—there is a six-month difference between the data sets for the two indices.

When we broke from Westminster in 2016, we adopted the ASHE index by a resolution of the Parliament. It is not a whim of the corporate body. It was a decision made by MSPs collectively, in Parliament. Had we not refused our increase in 2021-22 as a consequence of the pandemic—it would have been a 5.1 per cent increase using the ASHE index, but the Parliament declined to take it—we would still be ahead of where we would have been had we applied CPI as the basis of our increases throughout the period since 2016.

I feel firmly that there is an independent element to the setting of MSP pay. If the corporate body was simply to say each year, “Oh dear, it doesn’t look like we’re getting much this year, which other indices are around that we could adopt that would give us a better hike?”, the opprobrium that would fall on us and the Parliament, which in approving the budget would be approving that increase, would be huge.

As the lead on finance in the corporate body, I argued that we should stick with the ASHE index, long before I knew what it would be this year. I said that it might mean that in the following financial year, we will have a higher increase that we will also have to recommend. However, in doing so, we will be acting in accordance with a decision by the Parliament to devolve the increase to the ASHE index on an annual basis, thereby leaving a degree of independence to the setting of pay and putting in distance from any suggestion that we as politicians are setting our own pay by deferring to a different index.

Is there a possibility that we might change the index and go to the Parliament to recommend a change? I am not against considering that. However, I would like to recommend that in a year when there was no material advantage to MSPs as a consequence. I think that, to go to the Parliament and suggest that we change the index this year because it will give members a much bigger increase, would be irresponsible and unsupportable.

All that said, MSPs’ responsibilities have changed since 2016. Following the Smith commission, additional responsibility has been transferred to the Parliament, so it is worth considering whether once a session or once every two sessions there should be some independent review of where MSPs’ pay sits in the wider context of public sector pay and whether it remains appropriate. However, were that review to take place, it is my opinion that its recommendation should be a legacy recommendation from this session to the next session and not a recommendation by us that would benefit us in this present session, because there would be very little public support for that.

10:00

The Convener: I would agree with everything that you said. It is important that there has been an explanation of that. I still think that a system that is a year behind—whether we benefit or not—is odd, because that is not reflected anywhere else in the public sector. I do not think that anyone on the committee would suggest that, at a time when everybody else is taking below-inflation pay rises, we should not do the same. Of course, the system has to be independent.

I ask that question because MSP colleagues will talk about the matter privately, but they will not want to do that publicly. Frankly, that in itself is an issue, because everybody else feels more than happy to talk about their pay and conditions, regardless of where they work.

That explanation is important and helpful. The weakness with ASHE is not that it is an independent system but that it does not take into account our actual situation as it is, whether it is good, bad or indifferent. As I said, all that will happen is that, because it is a year behind, it will look bad when the rate is above CPI, just as it will look odd when it is below CPI. It is a rather bizarre system.

Jackson Carlaw: I fully accept the points that you make. What makes the situation acute at the moment is the prevailing level of inflation, which has made this year’s increase stand out in the way that it has. In many respects, that is responsible.

I should say that ASHE in Wales has suggested a 7.3 per cent increase. The indices produce different results in different jurisdictions, although in Wales, where ASHE is adopted, annual pay increases are capped at 3 per cent.

The corporate body is mindful of those things. As I said, it would have been wrong and irresponsible of us to have adopted a different methodology this year. We agreed to stick with the methodology prior to having any idea what it was going to suggest, which maintains the integrity of the process and discussion that we, as your MSP colleagues, have on the corporate body.

I have tried to set some context of where we might look to in the future, mindful of the fact that that should not, at any time, be something that can be presented as any of us seeking to, if you like, take advantage of the opportunity that might exist were we to abandon the resolution that we made in 2016 and simply adopt another methodology.

Whatever we do, we must have a methodology. To say to the corporate body that it should simply put a finger in the wind and have a guess at what we should be paying ourselves each year would be completely wrong. I understand the point that you are making. Is it the correct methodology and should we review it? As I said, we would be prepared to review it, but in a year when it would not make any material difference to the outcome, so that MSPs could not be pointed at and accused of seeking to feather their own nest at the public's expense.

The Convener: I do not think that it is about that at all. It is about having something that is seen to be fair and realistic, et cetera. The methodology is important.

The Welsh comparison is interesting. If you look at the difference between the salaries that MSs and MSPs were paid 20 years ago, you see that MSs' salaries were about £17,000 less per capita than MSPs' salaries. I think that MSs' salaries are higher now, and their numbers are increasing from 60 to 96.

I have raised before—I raised this last year—that the corporate body completely ignores the different workloads of list and constituency members, in terms of both staff allocation and salaries. Every person knows—I was a list member, as were you—that there is no comparison in the workload, but everyone gets paid the same salary.

I know that you will continue to ignore that, year in, year out, but if there is a reassessment, that has to be the situation. It does not mean that the overall salary has to increase, but there should perhaps be a readjustment. I know that I will make myself extremely unpopular with three of my

colleagues around the table for saying that, but it is a fact.

Jackson Carlaw: I might borrow the phrase, "You might think that; I couldn't possibly comment".

[*Laughter.*]

The Convener: Indeed.

Okay, I have taken up more than enough time. I have more questions, but it is time to let other members in. Liz Smith will be first, followed by Daniel Johnson.

Liz Smith (Mid Scotland and Fife) (Con): I very much agree with what was said in the previous conversation. It would be irresponsible if we were seen to be feathering our own nests.

I return to the issue of commissioners, because it is vital that the public have complete transparency on what their money is being used for. In your note to us, you mention that the additional money that is being sought by the Scottish Human Rights Commission is about reorganisation and staffing structure, whereas the money for the ethical standards commission is about getting an additional 7.4 full-time-equivalent staff. Do we have more information about what the new structure is for the SHRC, and do you know what the 7.4 FTE staff in the ethical standards commission will be doing?

Jackson Carlaw: The answer to both those questions is yes. We have detailed operational organisation charts that have been submitted to us by the commissioners, in presenting their requests and funding requirements. I do not have the SHRC structure in front of me just now, but it is perfectly possible for us to supply that, if it would be helpful.

David McGill: It certainly is possible. I will build on what Jackson has said. The increase in staffing at the ethical standards commission is based on the thorough business case that was produced, which was one of the recommendations that came out of the audit process this time last year that identified governance failings and raised serious concerns about capacity and capability in the office. The auditors recommended that a workforce planning exercise be undertaken, which resulted in a business case. That was presented to the Scottish Parliamentary Corporate Body, which interrogated it, including taking evidence on it from the acting commissioner. That was all about getting the organisation back to where it needed to be for the role that it plays in the ethics framework in Scotland.

Liz Smith: Does the ethical standards commission require 7.4 additional full-time equivalent staff because the workload has significantly increased in the commissioner's office? If that is the case, by how much has it

increased? That, too, is a matter of public record. One of important things in relation to commissioners is public accountability for where the money is spent; that is probably the commissioner that has the highest profile in terms of being held to account by the public. Will you give us a little bit more detail about that?

David McGill: I do not have it with me today, but we certainly have all that information, which I can share with the committee. The acting commissioner included the information in his annual report. There is quite a lot of detail about the increase in the number of complaints and in the complexity of complaints, which was another factor in the workforce planning exercise. The increase is to ensure not just that the office has the right number of staff to process complaints, but that it has the staff capability to manage the increased complexity in the complaints that it deals with. I will be more than happy to share that information with the committee.

Jackson Carlaw: It is fair to say that the number of complaints increased very significantly and peaked as a result of many complaints being received in respect of one very public matter. Complaints have tailed off again slightly, but are still at a higher level than they were. Also, complexity has evolved over time, as the nature of complaints has become more detailed.

Liz Smith: What will restructuring of the SHRC office involve?

Jackson Carlaw: We will have to come back to you on that. In my head, I can remember the discussion, but I cannot remember what individuals will do. We can supply the approved operational organisation structure. In that instance, there had been a request for significantly more people than we eventually agreed to employ.

Liz Smith: Convener, if it is all right with you, it would be important to get that additional information on the public record. Could Mr Carlaw produce that in due course? That would be fine.

Daniel Johnson (Edinburgh Southern) (Lab): I commend Mr Carlaw for prefiguring the exact topic on which I was going to ask questions. Having installed a smart meter in my house over Christmas, I consider this an area of my expertise, in addition to retail.

On the £4 million figure, I can well understand that you need a robust system to manage the heat, ventilation and so on, but it strikes me that that is a very large sum. What will that actually buy the Parliament? Is that money just for software or for new infrastructure? In replacing a 20-year-old system these days, such things sit on the network rather than requiring their own dedicated infrastructure. How was that figure arrived at,

because £4 million for a single item of software, if that is what it is, would be a large amount?

Jackson Carlaw: I am sure that colleagues will be able to explain that, but I will introduce the matter by saying that obsolescence is a reality for plant. My tour of the bowels of the building was like visiting the Britannia or the Queen Mary. What you will see if you take up the offer of such a tour is extraordinary. I did not realise that the building went so far down or that we sit on a lake: we pump up water from a historical lake that flushes all the toilets in the building.

It is clear that, as we seek to meet our environmental obligations, every aspect of how the building and the room that we sit in just now operate is critical. It is not like a domestic situation where we can wait until the boiler fails and then shiver for a fortnight and have someone come along and do something about it. It is obvious that we must have a plan that ensures that the Parliament will always be functional and operational.

I know that this is not necessarily what Daniel Johnson is looking for, but he might find it revealing for his new-found expertise. The corporate body would be very happy to facilitate a tour of that infrastructure, provided that the convener resists the temptation—some colleagues on the corporate body have been tempted—to press the big red button that says, “Do not press”. The tour that I went on was revealing: I have no understanding of the issues, and I realised that the extent of all this is way beyond anything that I had imagined.

The four-year programme has been very carefully established. Michelle, do you want to talk more generally about that?

Michelle Hegarty: To answer the question, the £4 million figure is for a mixture of infrastructure and software. It is a complex and technical project, but one thing that helped to explain it to me, which Mr Carlaw alluded to, was finding out that in this room, for example, the system operates the ventilation, the air conditioning, the heating and the cooling. However, it is not just about the building: the system also carries out an essential function in cooling our communications servers for broadcasting, security and information technology, which, as you will appreciate, need to be kept at a certain temperature and humidity level in order to be able to function in the building. Both those things—

Daniel Johnson: I understand the purpose of the system; my question is more about how the amount will be split. Given that it is a four-year project and that half the amount will be spent in this coming year, it would be helpful to understand the split between the cost of the work that will be

done, the cost of software and the cost of infrastructure.

Michelle Hegarty: We can come back to you with the detailed breakdown, if that would be helpful. The procurement phase will commence imminently. We expect that by the summer we will be in a position to decide, with the corporate body, whether to award a contract to proceed.

As you will see, at the moment we have a range of costs until we go out to the market, after which we will have a much firmer schedule on how much it will cost and sequencing of the work. We have worked up a programme, but until we go to the market and the specialists tell us how they will install the system, the amount will be subject to change. That will become firmer once we get into the summer and we know what the market has returned in terms of the investment, because we need specialists to install the system in the Parliament.

10:15

Daniel Johnson: Obviously, that is important because, fundamentally, the system controls the utilities bill that the Parliament receives, for which £1.46 million is budgeted. First, what will the lifespan of the system be? If it will cost £4 million and it will last five years, that would raise an eyebrow, but if it was going to last another 20 years, it would make sense to spend that in order to manage bills of £1.5 million. Secondly, what is the split in the utilities bill between environmental and all other utilities requirements?

Michelle Hegarty: I will try my best to answer. Obviously, we are looking for the maximum possible life expectancy from the new system. The current one has been in place for 20 years, and we have eked it out and maintained it with one supplier, which is obviously a disadvantage. We want a system that can be maintained by more than one supplier. It will also be a more modern and resilient system.

In order to reach net zero, we will need to make further investments in systems that can interface with a more modern building energy management system, so that we can get data on where we are using gas and electricity, how we might tweak and amend that, and how we might reduce consumption to set us up for longer-term changes around net zero that require us to reduce our reliance on gas. We must move to a different way of heating, perhaps through heat pumps, but we must also be prepared for the greening of the grid, which will bring us the biggest benefits with regard to reducing our use of electricity.

Therefore, there are two rationales behind the system. One is the obsolescence of the current system. It must be replaced because it is 20 years

old. It was installed in 2003-04 and is now a huge risk because it is a business-critical system, in that it runs the building. The other thing is the huge advantage of a new system in our journey to net zero and the other work that we will speak to the committee about—probably the next time we come in front of you—with regard to the investment that we need to make over the longer term to reach net zero and, indeed, to reach our interim target to reduce emissions by 66 per cent by the end of the parliamentary session.

Daniel Johnson: What about the split between gas and electricity?

Michelle Hegarty: I do not have specific numbers. I can give you our current split between gas and electricity.

Daniel Johnson: Yes: that is the question that I am asking.

Sara Glass: The bulk of the £1.4 million—more than £900,000—is for electricity.

Daniel Johnson: How safe is that budget of £1.46 million? That is an increase of 39 per cent, but wholesale gas and electricity prices are almost five times what they were this time last year. Have you already bought the gas and electricity for the coming year so that that price is safe? Do we need to anticipate a significantly larger increase in next year's budget, if that £1.46 million has already been contracted for?

Sara Glass: I can answer that. We have bought about 84 per cent of next year's supply of gas and electricity. Those contracts were signed in the final quarter, so they will come into effect for the tail end of this year. Therefore, we will have an overspend in the current financial year of £150,000 to £160,000. The 84 per cent that we have already contracted will be in the budget year that we are discussing now.

We benefit from the Scottish Government frameworks. We are part of its arrangements, so pricing is secured through those. It is hard to know what utility prices will be doing—at least by later than this time next year. The Office for Budget Responsibility anticipates that utilities prices will start to decrease by 2024. It is hard to anticipate, but you can have confidence in our numbers in respect of 84 per cent of next year's supply having been purchased.

John Mason (Glasgow Shettleston) (SNP): As I understand it, you are looking for a 4.8 per cent cash increase this year. Some parts of the public sector have been given a flat-cash settlement. If the Parliament was to offer you a flat-cash settlement, what would that mean in practice?

Michelle Hegarty: We have talked about the degree of risk-based assumptions in putting the budget together. Sara Glass just mentioned one of

them, which is that we have tried to reduce the risk on utilities.

There is obviously still an element of risk that we will have to meet within our budgets. That might mean that we would not be able to progress, for example, the building energy management system. We would certainly have to go back and look again at all our project spend, a significant amount of which—including the building energy management system and chamber conferencing—is for obsolescent business-critical systems. We have a variety of other investments in maintaining the building to keep it windtight, watertight and so on.

Given that the bulk of our budget is made up of salary budgets—across members, their staff, Parliament staff and office holders—a flat settlement would place huge pressure on the Parliament's ability to meet increases in progression and/or salary cost of living awards.

John Mason: I understand that and I am not really arguing with it, but other parts of the public sector are under the same pressures. We have discussed commissioners at some length. For clarity, who should take an overview of commissioners? Is it this committee? I accept your point that it is not the corporate body's responsibility to say no, and I am sure that all the individual commissioners are doing and will do good work, but somebody needs to look at the overall picture and say that the money is not going into front-line services but into commissioners. Who should take that overall view?

Jackson Carlaw: The answer is twofold. David McGill might have a different view, but I say that it is for Parliament and the committees of the Parliament to do that. Perhaps this committee needs to share its concerns and the consequences with other committees. Secondly, the work is for the Scottish Government to do, because it is also an advocate for the establishment and creation of a number of commissioners.

I have certainly noticed an increase in the number of my parliamentary colleagues who have identified opportunities to progress a bill for a commissioner. Parliament should interrogate all those opportunities carefully. In my view—this is a personal opinion—from time to time we have, through the creation of a commissioner, devolved responsibility and accountability for powers that have rested elsewhere, which potentially undermines Parliament's ability to interrogate and pursue direct accountability. That was a personal comment and was not said on behalf of the corporate body.

However, I have identified to the committee the potential additional commissioners. As I said,

when Parliament was established we had two. The fact that we could be looking at having 14 commissioners means that we are looking at a considerable increase. During my first parliamentary session, between 2007 and 2011, a hybrid committee—on which I sat—was established because Parliament had taken the view that there were too many commissioners and rationalisation was needed. I believe that we reduced the number slightly, but it was difficult to put the genie back in the bottle because outside interest in the work of a commission, once established, leads to significant campaigning on the commission's behalf when there is a suggestion that there might be some way of merging its work with that of another commission. Frankly, back in the 2007-2011 session of Parliament, MSPs balked at the recommendations, so the number of commissioners was maintained at a higher level than was recommended by the committee that looked into potential consolidation.

The process is complicated, but we are moving into a period in which it is becoming regarded as a casual thing to suggest and implement the establishment of another commissioner, despite its being an expensive extension of our public sector.

John Mason: I share some of your concerns. The committee could perhaps look at the overall picture at some point.

The Convener: John Mason is looking at me with doe eyes, with that appeal. *[Laughter.]*

John Mason: I do not make many suggestions.

I will move on. Is the contingency increase from £1 million to £1.5 million simply cover in case inflation hits a particular area harder than we expect?

Jackson Carlaw: Yes. As a consequence of inflation this year, we ended up utilising most of the contingency that we had from the previous financial year. I think that we had used less of the contingency in a number of years prior to that. It struck the corporate body that it would be sensible to have additional contingency provision in the budget for next year, given that there are factors that we simply cannot be sure about.

John Mason: Is pay one of those factors? There are various figures in the papers. For example, 6.7 per cent was mentioned, but I think that that is an overall figure. The cleaning budget is up by only 3.9 per cent; I presume that the cleaners will be given a bit more than 3.9 per cent. You might be negotiating; I do not know, so I do not know what you can say in public, but can you give us any indication of the pay increases for next year?

Jackson Carlaw: I hope that you understand why we think that it is probably best that we do not explore that area this morning. It is clear that negotiations are under way, and we should respect the integrity of that process.

John Mason: I accept that. I do not know whether you can tell us anything privately or send us any private information about that, or whether you can at least keep us updated as things move forward. I assume that there will be a major impact on the budget and on your contingency funds if you have to settle for slightly more—or even slightly less—than you expect.

Jackson Carlaw: It is important that I say that the contingency is there to meet the potential volatilities in inflation. I do not know whether others want to add to that.

Sara Glass: In the current financial year, the pay settlement was above what we had budgeted for, so we used around £0.5 million of the current year's contingency to cover the difference. Essentially, the contingency is there to cover risk across a number of categories, one of which is the pay settlement.

In the salary cost increase, there is also the annualisation effect of the additional posts that have been introduced in the current year. They were not all assumed to be in place from the start of the financial year. There is therefore a roll-over impact, which is also reflected in the 6.7 per cent.

Michelle Hegarty: Sara Glass alluded to the fact that we had to use our contingency in the current financial year. However, the circumstances were exceptional. Obviously, when we budgeted, the inflation rate was an unknown quantity and, given the pay negotiations for the current year, it was an exceptional quantity. In fact, the Parliament settled very early: I think that our pay award was in May; we were well ahead of the rest of the public sector. We certainly hope to begin negotiations early with the trade union side and to settle early so that people have their pay awards in their pockets early in the financial year.

However, there are inflationary impacts across all aspects of our running costs. It is not just about projects and increased costs for components, delays, access to specialist contractors, and increased rates for specialist contractors. There are also impacts in some of our contracts and some of our licensing costs, which have the CPI and the retail price index built into them as the means by which they are uprated. Obviously, there are other things to do with utilities, for example, that have a degree of exposure around inflation.

I highlight that there are impacts across all aspects of our running costs. That is why the contingency has been increased to £1.5 million.

We will be very circumspect, as we always are, in how we use the contingency, and we are aware of the wider pressures in the public sector.

John Mason: That is helpful. Thank you.

If I understand it correctly, I think that you assumed that the uptake by MSPs of the staff allowance was 95 per cent, but you now assume that it was 93 per cent. Can you give a wee bit of explanation of that?

Jackson Carlaw: I am sure that Sara Glass can do that. That has been our experience. Clearly, in the first year of a parliamentary session, it takes some time for MSPs to come to a view about their staffing requirements. We can see that view evolving, and, obviously, we anticipate a lower uptake in the first year. However, it seems that we can now consistently identify that the uptake in terms of the overall MSP staff is at a level at which we can safely budget at 93 per cent.

10:30

Sara Glass: That is right. We have looked at six or seven years' history—excluding the election period, as we know that that is always different from normal running years—and have concluded that it was reasonable and appropriate, given the context, to budget for a 93 per cent uptake rather than a 95 per cent uptake.

John Mason: That is positive. It is good if MSPs keep in mind that, if we save a bit of money in our staffing budgets, that money is available to be put into the national health service or something else.

Jackson Carlaw: That figure is an average, of course.

John Mason: I accept that—some people will go to 100 per cent, I take it.

On saving money, can you give us an idea of practical things that we might be doing? For example, are we cutting the temperature in this building?

Michelle Hegarty: You have just touched on one example of an efficiency saving. We have been looking keenly at the budget, and the remodelling of the uptake is one aspect that is saving around £400,000 in terms of the budget that we are putting forward for next year. Procurement is another big area where we are able to track savings. We try to use the collaborative frameworks as much as we can, which relate to a sort of aggregate bulk of the public sector. In 2021-22, we saved more than £500,000, using the Scottish Government's procurement team's analysis, by using those collaborative frameworks to procure goods and services for the Parliament. Even where we did not use those, there was a saving of around

£400,000 in that financial year, through the ways in which we got value through procurement.

We are also looking at bearing down on contracts and costs. For example, in the current year, we have renegotiated the Microsoft enterprise licence, resulting in a recurring annual saving to the Parliament of about £70,000. We have also managed to reduce some of our cloud hosting costs, saving another £40,000, and we are currently concluding a telephony project, which will reduce our costs as we move towards a cloud-based system in the current financial year.

The other thing that we do, and which you will see in our indicative project budget, which we have kept to, is prioritise our project spend quite closely, taking a risk-based approach. There are some things that we class as red, meaning that we have to address them through project spend, and other things that we think we can eke out and keep going for a bit longer. That enables us to maintain a relatively stable five-year project pipeline in which there are no big spikes in investment.

Those are some of the ways in which we try to introduce efficiency.

Also, as part of our strategic plan, we have an entire programme of work around operational excellence, which Sara Glass is leading and which looks at how we use artificial intelligence and clever interrogation of data to enable us to improve the efficiency with which we, as a staffing group, undertake our work and provide services to members.

The Convener: And the good news is: no new website on the way.

Jackson Carlaw: Can I just say, convener, that one of the pleasures of being an MSP who sits on the SPCB is that you get to meet and work with many of the officials of the Parliament who would otherwise be unknown to us. Michelle Hegarty referred to procurement, and I know that Veronique Malcolm, who is responsible for procurement in the Parliament, is passionate about the subject. She reports to the SPCB in a detailed way and is incredibly proud of the things that we are able to achieve as a result of the focus that she brings to our procurement in the Parliament.

Having been an MSP who was not on the SPCB, I have been amazed at how much of the infrastructure of this Parliament is in the hands of people who MSPs know nothing about but who do a terrific job on our behalf.

Michelle Thomson (Falkirk East) (SNP): Good morning, and thank you for attending today. I echo Jackson Carlaw's comments about the staff. The operation of the Parliament is a huge undertaking:

many people do not appreciate that. I will happily take up the offer of a tour of the basement and promise not to press any red buttons.

Slightly unusually, I start by going back to Brexit and taking issue with the convener. If I were in a similar position to you, I would need to give careful consideration to the number of full-time equivalent posts required for forthcoming work on Brexit. I know from anecdotal conversations with the clerks that the number of legislative consent memorandums, and the complexity and scrutiny of that work, has been quite considerable in the past year. When I talk about retained European Union law and the back-end scrutiny of that in the coming year, that is usually greeted by horror from the clerks whom I speak to, because so much is unknown.

I am not certain about the specific additional head count provision that you have made for Brexit, given that retained EU law might lead to circa 4,000 pieces of legislation folding. I am sure that it will not come to that, but the number is certainly considerable. What is the specific head count and how confident are you in the provision of that head count?

David McGill: We will keep that under regular review. I am relatively confident at the moment, because we promoted an increase in the head count. We were grateful for the committee's support with that. The increase was based on robust business cases from all the individual parts of the organisation that would be affected by changes in the country's constitutional position. There was a lot of analysis of what the future might look like.

We referred earlier to the fact that there were 46 additional posts, including the translation of temporary posts into permanent ones. Almost half of those posts are in the scrutiny function, with an additional eight in our legal services department. That team was hugely impacted by the complexity of the proposed changes to retained EU law, which will have a massive impact on our legal colleagues. Over the course of this year, they will look at the impact that those changes might have on them and whether the additional resources will be enough. I am sure that they will have to marshal those resources to the absolute limit, even if they are enough. There may be a requirement for transitional and temporary resources to get us through the retained EU law process, as is currently proposed.

Michelle Thomson: Michelle Hegarty, do you want to add something? Okay, you are feeling confident. I am sure that the committee will scrutinise that.

I will pick up on something else. Jackson Carlaw, you are probably pleased that we are not

talking about the information technology system today. I felt more than a little sympathy for you last time we met, because you are accountable—rather than responsible—for the operation of that huge outfit.

I have two questions. You are probably aware that, under our remit for public administration, the committee will be looking at decision making, as a discipline in and of itself, within the Scottish Government. I have recently seen examples of risk assessment decisions being made, based on the probability of an adverse outcome, but looking at the impact on only one key stakeholder group. That is an obvious example. Given that you are accountable, Jackson, and that there are professional staff in place, how do you assess your accountability? How do you know that the decision making is as robust as it can be? I appreciate that you are doing a very good job on behalf of all parliamentarians, but you are quite exposed. How do you assess that risk to yourself? You get it in the neck if things go slightly awry.

Jackson Carlaw: I honestly do not dwell on that aspect of our responsibilities or on the risk to ourselves. I am satisfied that the corporate body requests all of the information that we think is required in order to be satisfied that the correct decisions are being taken.

From time to time, that means that items on the corporate body agenda are deferred because we feel that more information is required in order to think about, progress or take decisions. The multiparliamentary, extended nature of the IT contract exposed slight weaknesses to us, which I think that we have adjusted our internal systems to reflect—we have done some things differently as a consequence. David McGill can come in on that.

That is an illustration of something that exposed a weakness. However, in more general terms, John Mason was talking about procurement a moment ago, for example, and the reports that we get and the opportunity that we have to interface with the team that is responsible for that—Veronique Malcolm and others—satisfy us that we are on the correct path and that the correct decisions are being arrived at.

David McGill: I would back that up. The governance process is that the corporate body delegates to me the day-to-day running of the organisation, and I delegate further to Michelle Hegarty, and to people such as Sara Glass. It then becomes a matter of judgment on my part of what to escalate to the corporate body and in what form. The examples that Jackson Carlaw has given are of occasions when the corporate body has said that it needs more information on something or that it wants an issue such as the major projects to be done a bit differently—perhaps they needed more information from me

and my colleagues in overseeing that. As you put it, Ms Thomson, ultimately, it is their necks that are on the line; the responsibility lies with me, but the ultimate accountability lies with the corporate body. That is how the relationship between the staff and the corporate body works in general terms.

Michelle Thomson: I utterly appreciate and understand that; based on my previous career, I would consider what you are describing as the norm and what I would expect to see in place. I am probing the fact that where you have collaborative bodies that work well together and people are generally nice and get on well, it introduces a risk of groupthink, where insufficient challenge creeps in over a period, just because people are nice and believe that each side is doing a professional piece of work. There is no reason why they would not think so. That may well come up again in our decision-making inquiry.

How robustly do you ensure healthy tension as a body, given that that is absolutely necessary and can diminish over time in any organisation? Are you actively putting that at the forefront? I am thinking particularly of you, Jackson, given that you are accountable and it is your neck on the line.

Jackson Carlaw: Thank you for that. I am sure that Maggie Chapman, Claire Baker, Christine Grahame and I will be flattered to hear that we are nice.

The corporate body is not a committee of the Parliament. There is a published minute of our discussions, which gives some flavour of their outcome. Correct me if I am wrong, but I do not think that the officials would say that we sit there quietly or meekly and are shy to come forward with questions. Some of the issues that you have discussed with me and my colleagues this morning have also been challenged by your colleagues on the corporate body in progressing the decisions that have finally been taken.

I do not think that you would get groupthink among the same assortment of politicians in the chamber of the Parliament. Although the corporate body has an outcome to arrive at, there is a degree of challenge and different perspectives are brought to most of our discussions.

Michelle Thomson: My next question concerns the disaggregation of data, which is a theme that I keep following. I ask organisations, including the SPCB, whether they routinely disaggregate all the data that they collect by sex, because we cannot effect change without that. However, every time I ask that question of any body, I find that the answer is no. They do not routinely disaggregate the data. If we do not do that, how can we effect

change to ensure parity? I put that same question to you.

Jackson Carlaw: I am conscious that there is a biannual item on the agenda in relation to the way in which the Parliament functions that is very gender specific. Michelle, do you want to add something?

Michelle Hegarty: Can I clarify the question? Do you mean in terms of feedback or research?

Michelle Thomson: Where you collect data, do you routinely disaggregate it for every data item? The issue flows into your procurement policy and so on. Only by collecting data can we start to move that forward.

10:45

Michelle Hegarty: There is data that is regularly collected and analysed by the characteristics that you set out with regard to the staffing group of the organisation. We also collect a lot of data around parliamentary business, which can be diced and sliced in lots of different ways—the Scottish Parliament information centre can do that. Members sometimes ask for parliamentary data sets to be broken down in that way, which can be done.

I am not aware of anything else that we are specifically doing in that area, but I am happy to take that question away and come back to you if that is a particular area of interest.

Michelle Thomson: If I asked you whether this is a gender-friendly Parliament in all its facets, I assume that you would say that it is. I would then challenge you to say how you know that that is the case.

Michelle Hegarty: One aspect that we would point to is visitor feedback, and we also survey our witnesses who come in to give evidence. We have a range of facilities in place and we have external advisory bodies that look at various issues relating to our access with regard to disability and different genders. If that is what you are asking about, I can say that we routinely gather various feedback. That gives us information about how inclusive we are, and inclusivity is one of the core values of the parliamentary staffing group. We therefore pay a lot of attention to diversity and inclusion, not only in our operations but in the operations that we provide to the public and the services that we provide to members and their staffing groups.

Michelle Thomson: I want to almost turn the matter on its head. You are describing some collection and some output, which, if you chose to, you could pull into one report on one facet. I suppose that I am asking when you last produced—or whether you have ever produced—a similar report entirely from the point of view of the

female population in every single facet. Have you ever considered doing something like that?

Michelle Hegarty: A piece of work is under way, which one of our colleagues is supporting the Presiding Officer and a board on, on the gender-sensitive audit. You might have heard of that work. I believe that they are about to agree their report and produce it. That is one example of something that has been done specifically in that context.

Michelle Thomson: I will leave that with you as something to think about. Whether you routinely disaggregate all data that is collected by gender is a valid question. It flows through into procurement, for example. Do you know whether you have equitability in your procurement with regard to women-led businesses? That is an issue for many facets of the Parliament, as I am coming across.

Douglas Lumsden (North East Scotland) (Con): I welcome the major multiyear projects section, which really helps us as a committee. I have a question on the building energy management system, which follows on from what Daniel Johnson asked. Michelle, you suggested that it would help us towards becoming a net zero Parliament, so it is a case of spending to save. Do we have any idea how much of a reduction in our energy consumption it could lead to?

Michelle Hegarty: There are two factors. First, it is a replacement, because the current system is about to fall over, which would mean that we would be in a risk position with regard to being able to operate the Parliament. Secondly, there are benefits in replacing it with a more modern and resilient system because other investments that we need to make in facilities management in order to reach net zero will be able to interface smartly with the new building energy management system.

Somebody who explained it to me at the outset used a good analogy that stuck with me. When the system was introduced, people were using Nokia phones, but you cannot watch YouTube on a 2003 Nokia phone. We are dealing with technology that is at the very end of its life as regards what it can do to smartly monitor usage of electricity and gas supply in the building and adapt that as the footfall in the building changes and how we use the building adapts. We must have a system that the other investments that we need to think about in order to meet net zero in the building can interface with and plug into. The new system will lead to that.

At the moment, we do not have the detail of how all of that will work, because some of it will depend on the route map to net zero, which is critical. That work is being undertaken at the moment. Our expectation is that, by the time we get to the end of this financial year, we will know what we need to do. We need to consider the sequencing and

the investment that will be required to enable us to take that critical path. We expect that, by the time we get to the end of the current financial year, we will have a road map to net zero, which will show how we will meet the ultimate targets by 2038.

Douglas Lumsden: Is there not a risk in going ahead with the new building energy management system before you have the route map? Until you have the route map, you will not know what heat pumps and solar panels will be required or how everything will interface. It seems a bit strange that you are focusing on one particular piece of work. Although that might be necessary because the current system is antiquated, would it not be safer to have the whole route map or the whole plan before pushing ahead with this little bit? I am sorry—it is not a little bit.

Michelle Hegarty: It is not. The BEMS is an enabler—it is a foundational piece of work. We have brought in experts to support our facilities management team to scope what is required and then go out to the market. I would expect it to be part of the specification of the new system that it will have the ability to act as an enabler and to interface and be compliant with whatever else we need to invest in and layer on. We would expect that to be the case with current modern technology.

I should say that the people who are involved in this work have talked to other organisations that have undertaken a replacement of their building energy management system—I believe that Edinburgh castle has already done that—to find out about their experience of putting in place an interface that will work when future investments are bolted on. Of course, we are talking about a period of many years—the net zero path extends to 2038.

Douglas Lumsden: When will we find out about the costs associated with that pathway?

Michelle Hegarty: We are hoping to have the route map—the critical path to net zero—identified by the end of the current financial year. We will then have estimates of the cost of some of those packages. Work on the BEMS will be done over the next four years, after which we will start to see the other investments that we need to make as part of the move to net zero. Some of that is not entirely in our gift. Although issues such as how we can reduce our consumption are in our gift, work on the greening of the grid and more collaborative activity on heating the building, for example, will require engagement with others.

Douglas Lumsden: Your budget submission includes £189,000 for

“Office space planning and moves in line with our New Ways of Working strategy”.

Will you provide a bit more information about what that is?

Michelle Hegarty: Yes. Post-pandemic, our new ways of working programme involves offering a more flexible, hybrid way of working for members and their staff, and for our own staff, between Holyrood and elsewhere. We are looking to amend the building accordingly. We have a lot of spaces that are not being routinely used all the time, which is inefficient, because we are heating and lighting them.

We are therefore looking at trialling more collaborative spaces, which will mean that people will not have a set desk. That will not apply to all staff. We will categorise the types of worker who can use those spaces, which will enable people to put their stuff in a locker and choose to sit alongside other colleagues, rather than do what they do at the moment, which is to go to the office that their team works in. In addition, we have been piloting booths that staff can go into to make one-to-one hybrid calls, which provide a level of confidentiality.

We are offering a variety of new ways of working and are trialling several new ways of using the spaces in Holyrood. The other big investment has been in the digital meeting rooms, of which we will have 30 by the end of the current financial year. They make it possible to have hybrid meetings as well as all-virtual and all-physical meetings.

Douglas Lumsden: So the new ways of working programme is not a way of trying to get more people into the building; it is about entirely new ways of working.

The Convener: We are all chatting about why that is costing £189,000, given that all the facilities are already here. The offices are here, and the staff, technology and desks are here.

Michelle Hegarty: Not all the technology and facilities were here. For example, we did not have all the technology to be able to do hybrid meetings. If you have been in the rooms that have been set up for that, you will have seen that there is different technology that zones in on the person as they are speaking, and there is—

The Convener: I thought that that was finished.

Michelle Hegarty: No—we are still doing that at the moment. That work is on-going.

Jackson Carlaw: It goes way beyond committee rooms. That is in meeting rooms all round the Parliament.

Michelle Hegarty: Yes—it is the entire building. There has been a big pressure. We were very aware at the outset, when people started to come back to Holyrood, that the ability to meet in a

hybrid fashion was one of the early pressure points, so we took an early decision to invest in that technology in our meeting rooms. The other thing that we will be doing in that space, which is part of that cost, is looking at a simple way of being able to book a hybrid room when you make a Teams meeting.

The Convener: I am tempted to ask a whole barrage of questions on that, but time is against us. The Deputy First Minister is waiting for us to ask him questions on the budget. Your answers have been very comprehensive and we have overrun our time quite significantly. I thank you for your contributions and members for their questions.

We will have a break until 11 o'clock to enable a change of witnesses.

10:56

Meeting suspended.

11:00

On resuming—

The Convener: We continue our evidence taking on the Scottish budget 2023-24. I welcome to the meeting John Swinney, the Deputy First Minister and Cabinet Secretary for Covid Recovery. He is joined by the Scottish Government officials Alison Cumming, director of budget and public spending; Gary Gillespie, chief economist; and Andrew Scott, director of tax and revenues.

We have around 90 minutes for this session. Before I open the discussion, I wish Mr Swinney and his colleagues a happy new year, and I invite him to make an opening statement.

The Deputy First Minister and Cabinet Secretary for Covid Recovery (John Swinney): Happy new year to you, convener, and to members of the committee and its parliamentary staff.

When I set out the budget in December, I indicated that it was a particularly challenging one to construct. We are managing a range of unprecedented circumstances due to volatility from global factors, the impact of inflation and the cost of living crisis, and the consequences of the September fiscal statement from the United Kingdom Government.

Across the Government, through the emergency budget review in this financial year, we have taken difficult decisions that have resulted in a total of £1.2 billion of reductions in public expenditure, which has allowed us to meet the costs of increased public sector pay and to provide further help to people who have been most impacted by

the cost of living crisis. I am still working to ensure that we can forge a path towards balancing this year's budget, and have applied the assumption that there will be no carryover of resources into next year's budget from this year.

In developing my approach to the 2023-24 Scottish budget, I have taken the necessary steps to continue to maximise the Scottish Government's support for people in Scotland during the cost of living crisis. The pressures on this budget cannot be overstated. We have chosen to act to do everything in our power to deliver for the people of Scotland. We are confronting the challenges that we face by increasing taxation for those who are most able to pay, to enable additional investment to be made in the national health service at this critical time. With this budget, we are choosing to invest in Scotland and focus on eliminating child poverty, prioritising a just transition to net zero and investing in our public services.

I welcome the opportunity to meet the committee to discuss the Scottish budget in more detail and to assist in its scrutiny process.

The Convener: Thank you very much for that opening statement.

Over the next few weeks, we will have three debates. There will be a committee debate on our report on budget scrutiny and then there will be debates in the chamber on stages 1 and 3 of the Budget (Scotland) (No 2) Bill. We will end up having a tussle over the budget across the party divide, so I believe that one of the most important steps that we can take is to clarify the figures.

Let us look at where we are. At the very start of the 2023-24 budget document, the budget is set against inflation of 11.1 per cent, yet the Scottish block grant has declined by 4.8 per cent in real terms over two years. However, that is calculated by using a GDP deflator of 3.2 per cent, which I should point out is the usual comparator for analysing real-terms changes in public spending. As the Office for Budget Responsibility and the Scottish Fiscal Commission have highlighted, that approach does not capture the realities that the public sector faces, whereas if the consumer prices index were to be used to measure inflation, it would show UK funding to be 10.8 per cent lower than it was two years ago.

However, although those are the figures in the document, when the Scottish Parliament information centre looked at the same figures, it found that

"resource is due to increase by 3.7% in real terms in 2023-24 and capital is set to fall by 2.9% in real terms."

Do we accept those figures, which, superficially, appear to be contradictory, or are the figures

different because the balance has shifted between the block grant and the taxes that are being raised?

John Swinney: It is not for me to explore or explain the numbers from SPICe. I have put forward the Government's numbers and our assessment, which we have made in a transparent way. That indicates a number of points.

First, the impact of inflation can be viewed and judged in a variety of ways. If I recall correctly, when I was last at the committee, I was asked whether I would use the GDP deflator and I indicated that I would, because that was important for consistency in the way in which budget documentation is presented. Having said that, what the Office for Budget Responsibility and the Fiscal Commission said to the committee is accurate. The GDP deflator is a measure of comparative effect from year to year, but the effects of inflation will present themselves in a variety of ways to different aspects of the public services and public finances. Although the numbers that I present are underpinned by the GDP deflator, I cannot ignore the fact that, in reality, the ability or capacity to spend is eroded by the effect of inflation.

On the details of the numbers in the budget, the budget documentation clearly shows that, between 2021-22 and 2023-24, there is a real-terms fall of 3.2 per cent in the Barnett resource funding that the Government has available to it. We have taken steps in the budget to address some of that impact. Through the decisions that we have taken on tax, we have tried to overcome some of the effect of the erosion of the contents of our financial settlement and the capacity to spend as a consequence of the effect of inflation.

The Convener: If you had not done that, there would have been very severe impacts on the budget.

John Swinney: Of course, convener. As a consequence of our decisions on tax alone, £519 million is available to be spent in the Scottish public finances that would not have been there had we not taken those decisions. According to the Fiscal Commission, in this financial year, the budget benefits to the tune of about £1 billion as a consequence of the cumulative effect of the decisions that I and my predecessors in the role have taken over the past few years.

The Convener: Colleagues might want to examine the net impact of that, but I will focus on what that tax will be used for. There are Barnett consequential for health. In addition to those, how much additional resource is going into the national health service, for example?

John Swinney: The total uplift for the health and social care portfolio is approximately £1

billion. My recollection is that the Barnett consequential that arose was of the order of £300 million. The Scottish Government is passing that on in full, but we are going much further in the allocation of resources that we are making.

The Convener: In the draft budget, the Scottish Government's priorities were re-emphasised. You mentioned those priorities earlier: ending child poverty, ensuring sustainable public services and accelerating the transition to net zero. What happened to the commitment to sustainable economic growth, which is necessary to pay for all that? There was no mention of it in the budget statement. The draft budget document suggests as a national outcome that

"We have a globally competitive, entrepreneurial, inclusive and sustainable economy",

but there is no detail on how that will be achieved.

Thanks to the economic turmoil that was exacerbated by the UK Government's disastrous decisions in the autumn, the UK is now in recession, so how can the Scottish Government sustain rapidly rising benefits that will be £1.4 billion higher than they would have been if they had not been devolved with a shrinking economy, a fall in the working-age population and low productivity growth?

John Swinney: There are three key points there, convener. First, the way in which I have presented the economic argument in the budget document is essentially to say that our economic ambitions must be realised through the delivery of a just transition to net zero. That will involve the channelling of our economic activity to ensure that, out of the transition to net zero, Scotland realises the economic opportunities that will be available to us principally through the delivery of the national strategy for economic transformation. As the committee can see in the detail in the budget document, I have set out clearly the measures through which we are depending on the success of the national strategy for economic transformation to realise that economic transformation.

Secondly, social security expenditure, which you raised, is a matter of political choice. The Government has opted to make political choices on welfare that are in stark contrast to the decisions of the United Kingdom Government. We have decided to take measures to support individuals who face significant challenges. A particular illustration of that is the Scottish child payment, which accounts for a substantial part of the divergence in expenditure to which you have referred. That is an active political choice.

Thirdly, we will have to pay for all that from our success in boosting productivity and earnings within the Scottish economy, which is the focus of

the national strategy for economic transformation. The Scottish Fiscal Commission's estimate of earnings growth in the next few years indicates that it has a level of confidence that the measures and priorities that have been put in place will provide the foundations for achieving the increase in earnings growth that the Fiscal Commission has predicted and which underpins the budget announcements that I have made.

The Convener: The Scottish child payment has had a phenomenally positive impact on the 400,000 children whose parents are receiving it; it has made a significant difference. The whole point of having anti-poverty strategies is that people are eventually lifted out of poverty, and I know that, next year, the Scottish Government will spend more on employability than it originally intended to. If we are going to spend more on anti-poverty measures, by what year does the Scottish Government expect the work to lower child poverty to succeed to the extent that welfare expenditure will begin to decline?

John Swinney: Convener, you are correct that the philosophy behind all of this is that we must take a balanced approach to ending child poverty. We take into account direct financial support to families and efforts to maximise families' income, and, crucially, we emphasise the move into employability and employment for individuals and families. It is essential that those three elements are kept in proper balance because, as you correctly put to me, convener, if there is an imbalance in those measures, there is a danger and a risk of creating a disincentive for people to enter employment. For example, there could be and is pressure on me to increase the child payment to a higher level than it currently sits at, but that would not be an appropriate step because it would risk disincentivising employment. A properly calibrated balance has to be established in that respect, and I think that we have found that balance in our proposals.

In relation to the timescale, we are obviously anxious to make as much progress as we can, and we have statutory targets to meet in that respect. The statutory targets are essentially the milestones that we have to achieve, but the Government is working to make progress within an earlier timescale. Given that, comparatively speaking, we have a lower level of child poverty in Scotland than exists in other parts of the United Kingdom, I am optimistic that the measures that we are taking are working effectively in that direction.

11:15

The Convener: Through fiscal drag, raising taxes impacts adversely on living standards, and it

is anticipated that living standards across the UK will fall by 7.1 per cent over the next two years.

On St Andrew's day, I was privileged to attend the official opening of the £88 million medicines manufacturing innovation centre in Inchinnan, which is a world-leading facility that has in part been made possible through Scottish Government investment. Given such examples, is it not time to focus more of the Scottish Government's limited financial resources on boosting tech scalers—I know that there is an element of that in the budget, which I asked about after your budget statement, as you know—start-ups, research and development, innovation, skills and infrastructure in order to create high-value jobs, drive up private sector confidence in investment, attract people of working age—not just retirees—from across the UK and beyond to Scotland, and deliver the tax revenue that is needed to pay for the public services that we require?

John Swinney: Any budget has to balance all those factors. We are—correctly, I believe—taking steps to support people who face significant vulnerability and hardship; equally, we are investing to increase the productive capacity of the economy. For example, the commitments that have been made to sustaining investment in the Scottish National Investment Bank demonstrate the Government's support of exactly the agenda that you are talking about. I have made specific provision in the budget to fund the Techscaler programme. The enterprise agencies have had budgets that provide them with stronger resource settlements than they would have anticipated in the resource spending review. The expanded investment in our university sector is designed to assist in that respect, too.

The medicines manufacturing innovation centre venture that you talked about will be a collaboration involving universities, private companies and various other organisations. In the nature of that collaboration can be found some of the most substantial opportunities to enhance the productive capacity of the economy.

If you look at the totality of the budget measures, whether it is the support that we are providing to assist new ventures, the investment through the SNIB or the investment to support employability that is about broadening participation in the labour market, you will see that we are taking a range of measures to ensure that Scotland is an attractive place for investment. The data speaks for itself in the sense that, outwith the south-east of England and London, Scotland remains the most attractive and successful destination for inward investment of any other part of the UK.

The Convener: On sustainability, in evidence to the committee, Professor Ruane said:

“It is about optimising the use of digital technologies to be efficient in the delivery of public services”.—[*Official Report, Finance and Public Administration Committee*, 20 December 2022; c 4.]

However, there is a concern that details of public sector reforms, which were expected along with the budget, will now be set out in due course. When is that likely to be?

John Swinney: The work on public sector reform is an on-going priority, and a variety of public sector organisations will change the way in which they deliver public services to ensure that they can be as effective and sustainable as possible. Through the budget process, we are actively engaging with all public bodies to ensure that steps are being taken to maximise efficiency. As I set out to the Parliament, there are enormous pressures on our public finances and enormous pressures through the demand on public organisations and agencies, so we have to ensure that we have in place appropriate and sustainable methods of delivery in all organisations.

That work is, in essence, an on-going task as part of the work in which we deliver the budget priorities. It is being undertaken in a range of areas, but I will give some examples that the First Minister cited yesterday in the briefing that she gave on the health service. She talked about the way in which organisations such as NHS 24 and the Scottish Ambulance Service are changing their operational practices—and have already changed them—to ensure that they can handle more cases in more demanding circumstances than has been the case up until now.

I assure the committee that the question of public service delivery and the reform agenda is an implicit part of that. Indeed, in my budget statement, I said that there would be significant emphasis on the principles—established through the Christie commission—that emphasised early intervention and prevention and that those would be at the heart of the work that we take forward to deliver person-centred public services. That work was also the subject of a lot of detail that was set out in autumn last year in “Covid Recovery Strategy: For a fairer future”, in which, by joint agreement with local government, we set out how we would move towards person-centred public services. Those plans were openly shared as part of that process.

The Convener: I take on board what you are saying, but at the time of the resource spending review last May, we were advised that a package of reforms would be presented with the budget, and that has not happened. Now, it is being presented as a kind of on-going situation—almost a *mañana* approach. That is how it seems. The committee would prefer that, when we are told that something will happen in eight months’ time, it

actually happens in eight months. If that is not possible—I realise that there has been huge turmoil in the past year—we should be told that you have not been able to present the package of reforms by the time of the budget but that you will do that in March, May or whenever. It seems that we are now being presented with almost a rolling reform thing, which it is difficult to get a grip of. It is hard for us to grasp it fully and to scrutinise and analyse it.

John Swinney: Convener, the question comes down to the sustainability of the budget challenge, and I was very open with Parliament about the scale of the challenge that we face. I set out a number of factors that would have to be considered as part of implementing the budget. The budget contains significant fiscal pressure that public bodies will have to wrestle with. Public bodies will have to change the way that they operate in this financial year to ensure the sustainability of their public services. Those changes will become apparent as organisations take decisions in order to live within the resources that have been made available to them. However, I assure the committee that that work is actively under way and that it has been for a considerable time.

The Convener: Okay. In evidence to the committee, Dr Brewer of the Resolution Foundation said that UK Government cuts of £185 million to Scotland’s capital allocation were not “a sensible action”. He added:

“We are pointing the finger of blame principally at the UK Government”.—[*Official Report, Finance and Public Administration Committee*, 20 December 2022; c 6.]

He had said previously that the decision not to enhance capital funding, given the high levels of inflation,

“will lead to a steep decline in the purchasing power of Scottish Government investments ... this may hamper the Scottish Government’s ability to meet its net zero targets and damage the economic recovery”.

To what extent is that the case? How is the Scottish Government trying to mitigate the damage?

John Swinney: We have some scope in relation to capital activity to address some of those issues, principally through capital borrowing. Obviously, in the budget statement, we set out the intention to utilise our borrowing facilities in relation to capital projects to the maximum. Judgments will be made during the financial year—particularly more towards the end of it—about the volume of actual borrowing that is required, because that is a product of the interaction between individual projects, the cost of those projects, and the availability of funding. We do not want to borrow if we have no need to borrow to support the projects that we have under

way. Those sensitive judgments will be made, but we have some ability to address those requirements.

One of the issues that I have to be particularly mindful of in the current period is the possibility of an implication for our capital programme in this financial year from the United Kingdom Government's supplementary estimates, which we expect to be published some time over the course of the next six weeks. There is undoubtedly a risk that that will restate capital expenditure within the United Kingdom, which could have a negative effect—I cannot see there being a positive reaction, but it could be neutral or negative. I have to be mindful of that in the decisions that I take in the remainder of the financial year.

Dr Brewer made an important point. We want to sustain investment in the capital estate of Scotland.

Another caveat that I should probably put on record in relation to that point is that capital projects are significantly affected by the effects of inflation and the input prices that largely arise from the global turmoil that we are experiencing as a consequence of the war in Ukraine. We are looking very carefully at the cost of capital projects because, in some circumstances, there might be an argument for delaying the commitment to a capital project because the cost at the moment might be so great compared with what we would have ordinarily have expected to be the case, given the exceptional pressure of global input prices and inflation. There is a set of sensitive judgments to be made about whether we should take forward all the capital projects that we would have ordinarily been committed to taking forward, given the effect of price inflation on those projects at this moment in time.

The Convener: That is interesting, and it leads on to my next question. When prices rise, they remain at a high level even if inflation goes back to zero, so there is still an issue. If we had the time, I would love to wade through the budget and ask a whole load of questions, but I am not going to do that. My colleagues would lynch me if I did so, and time is against us. However, I have a question in relation to that.

I noticed that the more homes programme will see its budget fall by 24 per cent next year, to £567.5 million. I imagine that you will respond by saying that that is because of the issues that you have outlined in relation to high inflation and the costs of materials that are needed to build those homes. However, local government capital grants will increase by 19 per cent next year, to £607.6 million. What is the thinking behind the decision to reduce capital spend on housing but to increase it significantly in the money allocated to local authorities?

John Swinney: In the judgments that we make, we need to bear in mind many of the factors that I have just outlined to you. The more homes affordable housing programme will be uneven from year to year, because of the nature and timing of particular projects over the course of the programme. It is a long-term, multiyear programme lasting at least five years, if not 10. Those numbers will vary from year to year, depending on the maturity of the programme.

The increase in capital grants to local authorities is a material point to consider in relation to the overall local government financial settlement, in which local authorities have a significant amount of flexibility in how they utilise the resources that are made available from the Scottish Government. It is important to consider all those issues in the round when we look at the financial capacity of local government to take the decisions that it has to take.

The Convener: I am sure that other members will ask about local government.

I want to go back to the NHS briefly. You talk about £1 billion in additional resource for the NHS and social care. How much of that additional funding will go towards the establishment of the national care service?

John Swinney: There are many things happening as part of the process of establishing the national care service. Through the work on the national care service, we are investing heavily in improving the resources that are available for salaries for social care staff, for example. The national care service expenditure will sit within an overall budget in excess of £1 billion—£1.1 billion. A substantial part of that is to increase pay for social care staff. My recollection is that about £100 million of that overall budget will be used to pay for the uplift in social care pay to £10.90 per hour, which, of course, builds on the other steps that we have taken to increase pay for social care staff.

The committee will receive an updated financial memorandum on what I would call the logistical arrangements around the national care service in future, and the point that you have raised will be addressed as part of that exercise.

11:30

The Convener: Thanks for confirming that we will get an updated financial memorandum—that is very good news.

I have a second question about that. You talked about £100 million extra going into national care service pay, which will be very welcome. For every £1 increase in hourly pay for care staff, what is the impact on the Scottish budget? For example, if the pay was to go up from £10.90 to £11.90, what

would be the additional impact on the Scottish budget? That is significant, and I imagine that the issue is likely to come up over the next few weeks.

John Swinney: I had better not give the committee a number off the top of my head, so I had better write to it about that point. Do you have a particular level in mind that you would—

The Convener: No. It is just about the impact on the Scottish budget of every additional £1 in hourly pay.

John Swinney: We will give you that figure.

The Convener: Obviously, if there are significant increases, the money would, understandably, have to be found from elsewhere.

Colleagues will be glad to know that I have only a couple of questions more, and then I will open out the session. I am not going to ask all the juicy questions, but I want to ask about one important issue that has gone back and forth.

In evidence to the committee, Professor Roy of the Scottish Fiscal Commission said, in talking about higher rate and additional taxes:

“the Government has to be careful when it thinks about how much additional revenue might come in, just because of people’s potential behavioural responses.”

He added that, although on paper the extra penny on the additional rate would bring in a further £30 million of taxation,

“that is without behavioural change”,

and he went on to say:

“When you add in the behavioural change, we think that the totality of that is only £3 million.”—[*Official Report, Finance and Public Administration Committee*, 20 December 2022; c 30, 38.]

Other organisations and groups might have different views on that, but that is what the Scottish Fiscal Commission is basically saying.

Is it worth the bother of adding an extra penny on tax if 90 per cent will be lost to behavioural change? How concerned are you that the level of behavioural change restricts your room to manoeuvre and that, if tax went up further, you might end up with a negative tax-raising situation?

While I am on taxation, I will ask more about that. Is the Scottish Government worried about an increase in people incorporating to avoid paying taxes? Is it worried about the image that is presented to other parts of the UK—wrongly, in my view—that Scotland is a high-tax country?

John Swinney: There is a sizeable number of points there. The committee is keen for urgent progress, so I will try to keep this as brisk as I can.

The first thing to say is that I accept Professor Roy’s fundamental point that the Government has

to be mindful of these questions. I readily put that on the record, and I consider that matter very carefully in relation to the steps that we take.

Secondly, when we set out our tax position, we set out the position technically, but we also did so in terms of the Government’s values and policies. We set out technical changes, but we also set out why we are undertaking those technical changes. They are based on the principles that the Government adheres to, which are that we believe in progressive taxation and that higher earners should contribute more in taxation than has previously been the case. We apply those judgments.

As I have already set out to the committee in response to your questions, the budget would be without £519 million if I had not taken the decision that I have taken to change the tax approach that is inherent in the budget. That enables us to better and more substantively invest in public services and public priorities.

Thirdly, there is obviously a risk—the Fiscal Commission acknowledges this and sets out the arguments—that people may take steps to change their tax affairs to avoid those consequences. Morally, I think that it is wrong to do that, but it is technically possible for people to do so. I believe that that is morally wrong because people who live in Scotland have access to a set of provisions and services that are different from those that are available in other parts of the United Kingdom. Somebody might change their tax arrangements to avoid paying certain amounts of tax but be prepared to accept that, if their child goes to university in Scotland, they will not pay tuition fees; that they will have access to free prescriptions; that they will, if they have young children, have a better proposition in the early learning and childcare that is available compared with what is available in the rest of the United Kingdom; or that they will pay comparatively lower council tax than people in other parts of the United Kingdom do.

There is a very strong moral dimension to this. People in Scotland have access to what I called in the budget statement a social contract of provisions. I think that it is appropriate that we support that in these very tough times through the decisions that we take on taxation.

The Convener: There is, of course, an argument for additional taxation that is being made by some people. The difficulty is that that does not seem to take behavioural change into account at all. People seem to think that, if tax is increased by X amount, the revenue to the Scottish Government will indeed be X although, in fact, that is not the case.

John Swinney: As the committee knows, I am required by statute—I do not complain about this—to use the numbers that are provided to me by the Fiscal Commission. That is the right and proper way to do it, and I cannot ignore what the Fiscal Commission says on those numbers. I see commentary into the debate that suggests material that I could not take into account, because it is not the Fiscal Commission's view.

The committee has heard the Fiscal Commission's view. I cannot ignore that—I have to take it into account. However, there is other analysis that suggests that, if Swinney just went off and did this, there would be much more money available. Unfortunately, that collides with the reality of the assessment put forward by the Fiscal Commission, which I cannot ignore.

That is perhaps the best way to convey that point, convener.

The Convener: Point taken.

Finally from me, when we debate the budget in the chamber, we will no doubt have the usual demands for vast increases in expenditure across every portfolio accompanied either by tax cuts or—who knows?—possibly tax rises. In the 26 days since your budget statement, which political parties have approached you asking to meet to discuss alternative proposals? Of those that do, will you insist that demands for increased spending in one area of the budget are met by identified reductions elsewhere or by specific tax rises in order to meet them, to ensure a balanced budget?

John Swinney: Since the budget was set out, on 15 December, I have not had any discussions with the other political parties on the budget provisions. For Opposition spokespeople on finance, I would have thought that I would be the last person that they would want to see over the Christmas break. If there was a choice between Santa and John Swinney arriving for a discussion, I think that Opposition finance spokespeople would probably have chosen Santa.

The Convener: I just wanted to know if you had been approached by them. I would not expect them to turn up at your house on new year's day to first foot you.

John Swinney: I had discussions with all the political parties in Parliament prior to the budget being set. I concluded each of those discussions by saying that I would resume them once the budget was set out and the dust had settled. We will have those discussions in the fullness of time.

The convener makes an important point, which is that that dialogue is important. I want to make sure that I hear the perspective of other parties and I will do my best to address it. However, the

other important point is that I have allocated the resources that are available to me; I have made choices. Therefore, if I am going to reallocate money to address issues that are brought to me by other parties, I have to be confident that they can be funded. That requirement will have to be put on all provisions.

The Convener: Thank you. I now open up the session, and the first person to ask a question will be Douglas Lumsden.

Douglas Lumsden: I want to ask about public sector reform. Information on that was going to be in the budget statement in December, but it has been delayed. Can you tell us your thinking on the direction of travel on public sector reform and when we will actually see things come forward? I imagine that reform will have an impact on the coming years' budgets. The longer that it takes to make those reforms, the harder it will be to set budgets in future years.

John Swinney: I reiterate to the committee what I said to the convener: steps are being taken constantly to reform public services. I want to debunk for the committee the idea that we are waiting for something to happen to undertake public sector reform, because we are constantly changing the way in which public services are delivered in order to live within the financial restraints that we all face.

The Government agreed with local government an approach to public service reform through the Covid recovery strategy work, which laid heavy emphasis on the design of person-centred public services. That is about learning some of the important lessons of Covid and applying them to the delivery of public services. For example, we undertake less transactional activity between different aspects of public service, and undertake more delivery of services around individuals to assist them in meeting the challenges that we face.

Work that is under way in the Dundee pathfinder project, with which Mr Lumsden may be familiar from his constituency interest, is exploring how that can be best undertaken by a collaboration involving Social Security Scotland, the Department for Work and Pensions, Dundee City Council and a variety of other organisations, including those in the third sector, to better meet the needs of individuals and support them. Reform work is under way.

The challenge that public organisations face is that they have to live within the reality of the financial settlements that I can make available to them. We have provided, in the Covid recovery strategy, for example, the means and mechanisms by which organisations can do that.

Inevitably, as a consequence of the budget, there will be a need to put into practice some of the provisions that were set out in the resource spending review. For example, the size of the public sector workforce will be affected by the scale of the budget. Organisations will be taking those decisions based on the financial settlement that the Government has made available.

Douglas Lumsden: Will you come back to Parliament to present what we should expect to see in a future public body landscape, or will that not happen now?

John Swinney: The Government may well take forward changes to the public body landscape but, fundamentally, organisations have to take forward their plans within the resources that the Government has made available and by taking account of the principles that have been set out in the Covid recovery strategy, the resource spending review and the budget document.

Douglas Lumsden: Will that encompass the local governance review, which I think we were meant to see last year? We have not really seen anything on that yet.

John Swinney: Discussions on the local governance review are part of the invitation that I have made to local government to work with us on constructing what I have described as a new partnership between national and local government to work collaboratively on shared endeavours, which is what we did on the Covid recovery strategy. Inevitably, that will be part of those discussions.

Douglas Lumsden: I presume that things such as the national care service will shape some of that local governance review.

John Swinney: Yes.

Douglas Lumsden: When you talked about ending child poverty, you spoke about employability. Your budget document says that it is regrettable that £53 million has been taken out of the employability budget. How does that tie in with ending child poverty? You have previously spoken to the committee about early intervention and prevention. How does that tie in with that decision, which was obviously a tough one?

11:45

John Swinney: We plan to spend more next year on employability than we will spend this year, so there is an increase in the projected expenditure on employability. However, in the emergency budget review, I removed around £54 million-worth of expenditure that was planned to be undertaken on employability in this year.

If we had spent that £54 million this year and I had set the budget that I have set for next year, there would have been a reduction, but we did not do that. We took the money out this year for a reason that I think I explained to this committee; I certainly explained it to the Social Justice and Social Security Committee.

At the moment in the financial year, which was quite advanced, when I had to take the emergency budget review decisions, I had a limited range of sources of expenditure that were not legally committed, and those employability resources were not legally committed. I had to take a set of difficult and abrupt decisions to free up money to be able to afford increased public sector pay bills during this financial year. I reassure Mr Lumsden that there is incremental growth from this year's actual expenditure into next year on employability programmes to support the child poverty reduction activity.

The other factor that allowed me to remove the expenditure that was planned to be undertaken on employability in this financial year was that we still had capacity in the existing programmes for individuals to enter employability activity. That money could be removed because there was still adequate capacity to enable our child poverty measures to be supported; it is just that we were not expanding the programmes to the extent that we had predicted.

Douglas Lumsden: I will put it in a slightly different way. Do you feel that more money could be spent in that area to reduce our welfare bill, as people become less dependent on welfare schemes?

John Swinney: It is undeniable that that could be done, but I have to make a judgment about what resources are available. That is a key point about the Dundee pathfinder in which we are looking closely at what works in supporting people out of economic inactivity and into productive economic activity. Some good learning is coming out of that programme that will influence how we deploy employability expenditure in future.

I come back to my point on capacity. In essence, these are demand-led programmes, so if I, or the Cabinet Secretary for Finance and the Economy, who should be here doing this, find in the course of the next year that there is the need for more investment because the capacity is being used up already, that is obviously an issue for substantial consideration.

Douglas Lumsden: I have a final question, if I may. The poundage rate for non-domestic rates has been frozen, but the budget shows that the intake from non-domestic rates has increased substantially. I presume that that is because of the

reevaluation that has just taken place. Can you say what the valuation roll has increased from and to?

John Swinney: I cannot give you that precise information now, but I will write to the committee with the best available information that we have. I am not sure that we will be able to give that number, because there will still be appeals under consideration, but I will give the committee the best information that I can at this stage.

Douglas Lumsden: That would be helpful, even if it was an estimate for the new roll.

Michelle Thomson: Good morning, Deputy First Minister. I will pick up on a couple of points that the convener posited. On capital expenditure, you have given a clear rationale around the global economic considerations, and said that you might therefore seek to delay rather than stop projects. That makes me think that every capital project will be impacted by what you describe and therefore that every capital project could be delayed. Could you give any more flavour as to the type of project that you have in mind?

John Swinney: First, let me assure you that I do not think that it applies universally to all capital projects. For example, higher education research expenditure is covered by capital expenditure and it is not affected to the extent that a project that relies heavily on input materials will be affected. Construction projects are a significant concern at the moment because of price inflation on raw materials, and that can obviously affect judgments. That is not me indicating that that judgment will be applied in all circumstances. We have to be mindful of where and when it is appropriate to make that judgment, but it is a relevant factor to consider.

Michelle Thomson: Thank you for that clarification. You mentioned construction, and we know that we still have a chronic undersupply of affordable housing and a massive pent-up demand that goes back years. Are you able to give any more flavour at this point of the type of project or sector on which you might seek to impose a delay for the circumstances that you have outlined?

John Swinney: We will simply have to look at that on a project-by-project basis. We need to see what price estimates are coming in for projects and make a judgment on the nature of the sustainability of those projects. That will be an ongoing consideration during the year, but it is important that I flag up to the committee at the outset that that is a material consideration in how we proceed through this period.

I am mindful of the fact that there will be wider considerations to be borne in mind—a point that Michelle Thomson has made—about the importance of constant attention to the affordable

housing challenge. It is an important point, and one that will weigh heavily in decision making and determination on these points. As we speak, commitments are being made in relation to affordable housing projects in the current financial year, despite the fact that we face enormous external pressures.

Michelle Thomson: I have every sympathy with the situation in which the Deputy First Minister finds himself while he is operating as the finance secretary. However, I am asking for clarity from a business investment point of view. Businesses will be determining at what point they will seek to make investments and therefore will need to know what the Scottish Government's appetite is for that, given the constraints that you have outlined. Do you plan to make further announcements to give much-needed certainty to various business sectors, of which construction is one?

John Swinney: I cannot go further than to say that these matters will be considered on a project-by-project basis. However, the Government fully intends to deploy £6.3 billion of capital expenditure and the point that I am making is, in a sense, a marginal point in relation to the totality of that programme. We will work to deploy £6.3 billion of capital expenditure in the next financial year, so business organisations can look at that and see how it is distributed across the range of portfolio areas and the plans that have been set out in the budget document. They can take some confidence that the Government will invest heavily in the country's capital estate, but certain projects might not proceed as originally timetabled, although they will be at the margins of the programme.

Michelle Thomson: It was mentioned earlier that the capex figure is set to fall by 2.9 per cent in real terms. I know that consideration of terms of reference for the fiscal framework review is under way, but do you sense any increasing urgency for that, given the probably fairly common calls for an increase in capex borrowing powers for the Scottish Government? Do you sense any increased urgency from the UK Government?

John Swinney: The discussions with the UK Government on the fiscal framework have, in essence, taken account of the transactional work around the evidence review that is being prepared. I have not had further discussions with the UK Government about the fiscal framework review, beyond that—if my memory serves me right. We have set out some of the issues that we have in relation to the scope of our financial powers and responsibilities, and we will engage with the United Kingdom Government on those points.

Michelle Thomson: Net zero is a particular concern in the context of capex. We know that it will involve difficult decisions; indeed, you have commented that there will be genuinely difficult

decisions for Scotland that will require significant long-term private investment and behaviour change. I wondered what you meant by “behaviour change” in that context.

John Swinney: It is about how we, as a society, operate and utilise our resources. In that respect, I am thinking principally about our use of transport. Transport is a significant factor in the journey to net zero, so changing our activity in that regard is a significant factor in the exercise. There are wider issues to do with resource use and the steps that we all take to ensure that we do as much as we can to support the net zero agenda.

Michelle Thomson: I want to pick up on the point about behaviour change and I want to make two more points. Attempts to model behaviour change must be increasingly complex, given the complexity of the existing fiscal framework and the wider economic environment. Are the models that you use evolving? Are they fit for purpose? That was a slightly technical question.

John Swinney: Those are technical challenges. My officials wrestle with such questions, as does the Fiscal Commission. We depend on the commission’s final view on behaviour change—as I said to the convener, it is right and appropriate that I depend on the commission’s conclusion.

I was finance minister for many years and have come back into the area after a bit of a gap, and I make the observation that the arrangements are a great deal more complex than they were when I left the role in 2016. The issue that you put to me is just one example of an area where there is a need for a more sophisticated understanding of the choices and decisions that people make. That issue is being constantly addressed, to try to ensure that the work is of the highest possible quality.

Of course, we are talking about predictions and assessments. There will be outturns, and we will see the validity of some of those judgments in due course.

Michelle Thomson: Finally, I mention a matter that has been alluded to and which I am sure other members will want to ask about. There are huge demands for public sector pay deals, which must be a massive challenge at the moment. I know that the Government is working extremely hard to reach agreement on various pay demands, but what contingencies do you have in place if a deal cannot be reached with a sector by the end of the fiscal year?

John Swinney: We are working hard to resolve outstanding pay deals. We find ourselves, for example in the context of the health service, in a situation in which some unions have accepted a deal and some are yet to accept a deal. We continue discussions, obviously, and we are trying,

to the greatest possible extent, to avoid industrial action. Obviously, there are some other workforces with which we are yet to reach agreement. I simply reassure the committee that we are working actively in dialogue to try to address all those questions.

12:00

The difficulty that I face in this financial year is that, as I have reported to Parliament and reinforced to the committee today, I am yet to find a path to balance in this financial year that I can be confident about. That means that the offers that we have made available for this year with the resources that are available are essentially the best that I can make available in this financial year. That is a material factor in those discussions.

Obviously, we will continue our dialogue with the relevant trade unions, but I am significantly constrained. If, for example, I were to offer more money for a particular pay deal in this financial year, I would have to find that money, and that would simply add to the total that I am still trying to resolve in this financial year. There is a real cash pressure.

The one caveat is that the United Kingdom Government has yet to set out its supplementary estimates. I do not know what will come out of that process. As I said, I expect that to be within the next six weeks or so. Obviously, if any relevant issues arise out of that, I will advise the committee of that.

Michelle Thomson: It is said that it is difficult to get a man to understand something when his salary depends on his not understanding it. That is probably what we are seeing with the fixed budget model. The committee knows that the extent to which the public understand how the financial framework for the Scottish Parliament operates is always a concern. I know that you and all the ministers have been at pains to help people to understand what a fixed budget actually means, but I still hear—whether it is about politics or otherwise—even media representatives blithely ignoring the fact that there is a fixed budget and the implications flowing from that. I know that you work very hard to try to get that message out there, but is there anything more that you and, indeed, we can do to support that?

John Swinney: I think that the committee well understands the challenges that I face. Once a financial year starts and I have set tax rates, we are essentially operating on a fixed budget, unless there is a change through the Barnett formula. That is the position that I find myself in at this moment in this financial year. There is a different set of arguments about the next financial year. I have completely accepted that, and I responded to

that in the budget statement with the changes to the tax position that I set out. However, there is literally a remaining amount of money to be spent between now and 31 March, and I have to live within that limit. As I have said to the committee, I am yet to be confident that I have a path to balance within that. That is a significant position that I never found myself in at this stage in the financial year in the nine years in which I was the finance secretary. I find myself in an entirely novel situation that is not a particularly welcome one, but it is a novel situation nonetheless.

When I have finished this evidence session, I will meet my finance team to take stock of where we are and what further steps we have to take. If, for example, I were to make further commitments beyond what we are already committed to in this financial year, I would have to find the money for them, and that would have to come from not taking forward other programmes that might be there to be taken forward. I have looked very carefully at what is called the remaining spend analysis for this financial year, and not an awful lot of flexibility remains for me in the next three months.

Liz Smith: Mr Swinney, I will start my questions with a point of clarification. In November, the First Minister wrote in the *Financial Times*:

“The budget of the Scottish government, for example, is worth £1.7bn less than when it was set in December as a result of inflation”.

I have heard you agree with that figure in the chamber. The First Minister added:

“yet we have not received a single additional penny from the UK government.”

Do you agree that you

“have not received a single additional penny from the UK government”?

John Swinney: Yes.

Liz Smith: Can you explain why you think that that is true, when the Scottish Fiscal Commission outlined extensive Barnett consequential for 2021-22 and for 2022-23? I think that the current figures are something like £447 million.

John Swinney: Because of the simple point that the First Minister is making in that article, which is that the Scottish Government’s budget for the financial year 2022-23 was essentially formulated in autumn 2021, based on UK numbers at that time, when inflation was at the consistently low level that it has been at for most of the past 30 years and that by the start of the financial year we saw inflation galloping up to 11 per cent, but there was no change to the fiscal arrangements that were being made available in 2022-23 to take account of that.

Liz Smith: However, it is not correct to say that there was not a single penny more from the UK Government.

John Swinney: I think that it is, and I have just explained why.

Liz Smith: Is the Scottish Fiscal Commission wrong to say that there are those Barnett consequential?

John Swinney: The point that Liz Smith is missing, which is the point that the First Minister was making, is that the financial arrangements for the financial year 2022-23 were largely set in a low inflation climate in the autumn of 2021. By the time we started to face the reality of 2022-23, inflation was galloping away from us and there was no subsequent adjustment of the financial year 2022-23 provisions from the UK Government.

Liz Smith: We will have to disagree on that point. Some commentators—

John Swinney: We can stay here all afternoon, convener. Liz Smith is not accepting the point that I am making, which is the point that the First Minister was making. The budget parameters were set by the UK Government in autumn 2021, when inflation was flat as a pancake. By the time the financial year started, inflation was galloping like a racehorse and the UK Government had not revised its financial estimates. That is the problem.

Liz Smith: As I say, we will have to disagree on that point.

Over the past five years, Scottish income tax policy has diverged from the rest of the UK’s tax policy because of the Parliament’s new powers, so the Scottish Government has been able to generate additional revenues. However, the potential additional spending power has been partially offset by weaker growth in income tax per head, and, as you admitted this morning, by weaker economic performance in Scotland—the UK economy has been weak, but the economy in Scotland has been weaker. What specific economic policies should be prioritised to ensure that productivity in Scotland is enhanced?

John Swinney: We need to do a range of things, which are set out in the national strategy for economic transformation. First, we have to have clear and effective regional economic strategies and measures in Scotland, so that all parts of the country have distinctive approaches that best address the needs and circumstances in different localities. The investment that the Government has made in funds in the north-east of Scotland to support the transition of the oil and gas sector is an important example of that. It is an indication of us taking tangible, practical steps to put in place regional economic strategy mechanisms.

In the south of Scotland, we have a distinctive south of Scotland economic strategy, which is led or supported by South of Scotland Enterprise and with which the Government actively engages. That is about enhancing some of the opportunities in tourism and the leisure environment and in the productive capacity of the food and drink sector. Those are just some examples relating to regional economies.

Secondly, we have to invest in the activity on tech development in Scotland. For example, we have the investment in the tech scalars programme, which has been commissioned from CodeBase and has now been rolled out in different parts of the country. The convener referred to that in his initial question. Investment in the capacity of the tech sector is important.

Thirdly, we have to engage substantially with and enhance the already developing collaborations between the university research sector and the business community. We are in a much stronger position today than we were five or 10 years ago, as a consequence of that approach. Universities have responded magnificently to the challenge, and they have opened their doors much more effectively to the business community, which has been much more engaged. I am optimistic that that work will be undertaken and will be effective.

My final point is about the Fiscal Commission's assessment of what lies ahead. Obviously, this is an annual budget process, so we look at snapshots of information for this financial year and the next financial year. The Fiscal Commission has to do something slightly different; it has to look at the individual year-by-year performances, but it also has to give a sense of its expectations on the direction of travel. Its expectations about the direction of travel on earnings growth in Scotland are very different for the period going forward as compared with the period that we have just gone through. That is an indication of the progress that we can expect to make on productivity.

Liz Smith: That is a helpful list. One thing that you did not mention but that I have heard you rightly mention in the chamber previously is the demographic concern. You are right that the size of the working population in relation to the total population is a major concern.

I want to ask about taxation policy, particularly for people in Scotland who are earning around £27,850 or above, who are paying a higher rate of tax than those in the rest of the UK. We have talked a little about behavioural change. Are you concerned that any of those who are middle to upper earners will feel that Scotland is perhaps not the most attractive place in which to live and work and to invest?

John Swinney: The first thing that I would say is that I do not consider our position to have a discernible effect on middle-income earners in Scotland. Essentially, the steps that we are taking are affecting individuals who are in the top two quartiles of the population in terms of earnings. We are concentrating the measures that we are taking on the top two quartiles—we are not discernibly affecting middle-income earners. *[John Swinney has corrected this contribution. See end of report.]*

My second point is one that I made in response to questions from the convener, I think. When people choose to live in Scotland, they know that they are gaining access to a much wider range of public service provision and opportunities than would be the case if they lived in other parts of the United Kingdom. I will not rehearse all the details, but we have the policies on free personal care, tuition fees, early learning and childcare and prescription charges. We have made certain choices that are available to members of the public in Scotland, and I think that that will feature in the judgments and decisions that individuals take.

Lastly, I think that people make judgments about a range of factors relating to where they live and work. From a variety of different perspectives—whether the social contract that I talked about, quality of life or access to facilities and services—Scotland is a very attractive place for people to live and work in and that will be reflected in the judgments that individuals make.

12:15

Liz Smith: I take your point about some of that but, notwithstanding the perceived advantages that people in Scotland have, if they are asked to pay higher levels of tax than elsewhere, they will look for effective delivery of public services. If we look at the NHS, schools or transport and if we listen to some of the comments from yesterday, what is additional in the quality of delivery of public services that merits those higher tax rates?

John Swinney: It is pretty clear that every health service in the western world is under colossal pressure. Scotland's health service is no different but, as has been rehearsed on countless occasions—Liz Smith's colleagues vigorously resist this point being made but I will make it again—although Scotland's accident and emergency performance is not as good as we would want it to be, it is better than that in other parts of the United Kingdom. That is one example of how the delivery of public services is better in Scotland than in other parts of the United Kingdom.

Let us take schools as an example. When I became a minister, 63 per cent of pupils in Scotland were educated in good or satisfactory school buildings. That figure is now more than 90 per cent. I am very proud of the investment that we have made in the school estate. Young people are being educated in much better conditions than was the case before with higher expenditure per capita in education than in other parts of the country. I know that this does not suit the narrative of some people in Parliament but, in my experience, young people are getting a fabulous education in Scotland. Yes, it is disrupted because of industrial action, but I cannot spend money that I do not have on pay claims that I cannot afford. I have been candid about that point.

On transport, the Government has invested significantly in expanding the rail network and expanding electrification programmes. We have put in place concessionary travel schemes for older and younger people. The use of the young people's concessionary travel card has been phenomenal. It has given young people much more mobility and flexibility.

Those are some of the things that people in Scotland are experiencing that are all to the good.

Liz Smith: However, Mr Swinney, people do not find it easy to see their general practitioner. They are finding that there are cuts to bus services, some train services or services that are provided to our islands. A lot of things add up to concerns about the delivery of public services. That is reflected in some of the comments that were made yesterday.

I will ask you about one other aspect of the tax changes: the change to the additional dwelling supplement. The Scottish Government forecasts that we will get extra revenue from that tax change. Has it done any modelling about that change in light of the number of people who say that they might leave the market for the additional dwelling supplement as a result of the rent freeze?

John Swinney: Those judgments are not the Scottish Government's; they are modelled by the Fiscal Commission, which takes into account behavioural change, as we have already rehearsed. I accept that the change to the additional dwelling supplement is projected to increase the revenue take to the Scottish Government. I also accept that it might provide a disincentive for people to acquire an additional property.

That might well be a consequence, but that would free up the property to be bought by somebody else, who might buy it as their first property, from which we might well get a land and buildings transaction tax payment into the bargain. Behavioural factors will be factored into the

analysis as a consequence of the work that the Fiscal Commission is undertaking.

Liz Smith: Thank you.

Ross Greer (West Scotland) (Green): I have a brief question about the current year's budget before I ask about next year's draft budget. Given the current uncertainties around public sector pay settlements, for example, at what point should we expect the spring budget revision?

John Swinney: Are you asking at what moment it will come?

Ross Greer: Yes. It is usually at the end of January or the start of February, but I presume that it might be somewhat later than that this year.

John Swinney: I cannot give a definitive answer, so I had better write to the committee on that. I am obviously looking very carefully at the interaction with the supplementary estimates, which might well have an effect. I suspect that we will have a better idea of the position by the middle of February, when we will be at quite an advanced stage of the budget scrutiny process here. It is unlikely that a spring budget revision will be brought to the Parliament before the conclusion of the budget process—stage 3 of the budget bill—but I will confirm with the committee in writing when I have a better idea of the position.

Ross Greer: That will be useful.

I turn to next year's draft budget. What status should we now give the resource spending review? When it was developed and published, there was an acknowledgment that, as each year that is covered by the RSR passed, there would almost certainly be gradual divergence. However, we are now in a position in which there is immediate and significant divergence in year 1. For local government, there is £550 million more than was laid out in the RSR. If I was working in local government and trying to plan ahead for budgets, should I presume that the 2024-25 budget will provide flat cash relative to what is proposed for next year, or should I look back at the numbers for that year that are contained in the RSR?

John Swinney: The resource spending review remains a very relevant consideration for all stakeholders who are concerned with the public finances, not necessarily because of the precise details in it, but because it shows the shape of how public finances are developing.

When the resource spending review was set out, we envisaged that there would be two early tough years and then two better years. However, given the UK Government's statement in November, we will have two relatively less painful years to begin with and then two much more painful years. I could draw a couple of lines on

paper and try to present a graph that showed how that all of that fits together but, roughly, what that says to me is that the next four years will be really tough on the public finances. Years 1 and 2 will be years of adjustment, and years 3 and 4 will be years of consolidation and real difficulty.

Some people might say that there is a lot of water to go under the bridge between now and then. However, having listened to the current United Kingdom Government's plans and to the comments that were made the other day by the leader of the Opposition, I do not get the sense that there would be much of a departure from the public expenditure outlook that has been planned for by the current United Kingdom Government should there be a change of Government after the next Westminster general election.

In answer to Mr Greer's question, I think that the direction of travel that is set out in the resource spending review remains absolutely valid, although some of the numbers might be different as a consequence of what has happened.

Ross Greer: I appreciate that answer, but if I was working in local government or the university sector, which, like local government, will be somewhat better off than it would have been under the plans in the RSR—although I acknowledge that those sectors will continue to feel that they need to ask for more money—on what basis should I use the RSR for forward planning, given that the specific numbers in it are no longer valid? Should I presume that the broad trajectory will continue—for example, the flat-cash trajectory for sectors such as the university sector? Should I assume that there will be flat cash in 2024-25 and 2025-26, based on what is in the 2023-24 budget?

John Swinney: I would not want to be drawn into giving as specific a response as that on an individual sector. What I can say is that organisations and sectors should draw from my original remarks the conclusion that, to be frank, 2023-24 and 2024-25 will be the buoyant years and the two years after that will be much more difficult as a consequence, and that that will have to play through into all sectors of the public finances.

Ross Greer: I have a final question that relates to various members' questions about behaviour change and tax policy. There have been relatively significant changes in tax policy, such as the 2018 changes to income tax and the changes to council tax—I think that those were in the same year, or it might have been the year before. Was there a significant difference between the outcome of those changes—the revenue that was eventually raised—and the behaviour changes that the SFC assumed would happen? I recognise that there are questions for the commission about methodology in that regard, but can you say

whether behaviour change resulted in anything that was significantly different from what had been budgeted for?

John Swinney: I do not know whether we have information on a granular enough level to answer your question. I will take that away and see whether we can answer it. As far as I am aware, reconciliations that have taken place have not indicated much divergence from what was planned, but it would be better if I took the whole question away and provided the committee with a more substantive answer in writing.

Ross Greer: Thanks. I acknowledge that it will be hard to disaggregate behaviour changes that are specifically the result of a change in tax policy as opposed to wider factors in the economy. However, such disaggregation would be valuable, if it is at all possible, as we scrutinise the future direction of tax policy.

John Swinney: I will try to give the committee a more considered view.

Daniel Johnson: Deputy First Minister, you have said—and it is clear to everyone—that the budget reflects challenges, pressures, priorities and choices. Such things do not necessarily exist in isolation. For example, when it comes to public services, there are huge demands on services, there are vacancies, and people quite rightly want to protect their pay. The Government is not faced with a linear problem.

With that in mind, I want to ask about the budget decisions for the NHS. We have £1 billion being put into the NHS budget as a whole. If we break that down, we see that about half a billion pounds will go to the territorial boards. I understand that about two thirds of the funding that is allocated to the territorial boards goes on pay so, if my maths is correct, what is proposed reflects the pay offer of 7.5 per cent. However, that offer has not been accepted by all parties.

What will happen if the Government has to settle at a higher rate and total pay awards come in at higher than 7.5 per cent? Will the territorial boards have to find the increase or will there be shifts in the overall NHS budget from the national budget lines into the lines for the territorial boards? What are the issues, risks and flexibilities when it comes to the NHS budget lines that are presented in the budget documents?

12:30

John Swinney: For absolutely clarity, the first point that I will make is that the pay offer that is on the table, which has been accepted by some but not all of the trade unions, is for this financial year. We have not yet negotiated next year's pay award. The type of calculation that Mr Johnson seeks to

make involves information about the final cost, which is not yet clear.

I suppose that I can best respond to the question by saying that I have tried to maximise the resources that are available to the health service in the budget settlement by moving substantially beyond the consequentials to provide an uplift to support the health service. Secondly, I have tried to be as mindful as possible, within the resources that are available to me, of the pay demands and pay pressures. Thirdly, once we get into the next financial year, we will be operating within a largely fixed financial envelope, given that I will have taken the decisions on tax—or, rather, I have taken those decisions. Parliament must decide whether it wishes to endorse those decisions. If it does so, that will in essence fix our budget for 2023-24. We will then have to manage the range of pressures within that fixed financial envelope.

Daniel Johnson: A simpler way to make the point is to say that it strikes me that there is limited flexibility in the health service budget, which is why I wanted to clarify that detail.

I will go further. In response to the convener's question on the national care service, you outlined sums that are included for pay, which I understand, but you did not specify the sum that has been allocated for setting up the care service. The financial memorandum stipulates a range of £60 million to £90 million just for set-up costs. I understand that that might change, but is funding of that order of magnitude included in the budget and, if so, where? That is not entirely obvious from my reading of the budget.

John Swinney: Any costs arising from the establishment of the national care service will be contained in the budget line, which is the sum of £1.1 billion for social care support and national care service delivery. As I said earlier, a revised financial memorandum will be sent to the committee to reflect the up-to-date assessment of how that will be taken forward, but that budget line includes a range of other items, not least of which is the uplift to social care pay that will be taken forward. Of course, the work on the national care service is about more than just the establishment of the infrastructure of the national care service. It is also about the issues of pay and recruitment, which we have talked about on many occasions.

Daniel Johnson: The budget line that you have just quoted is a level 3 budget line, which is quite high level. May I clarify again whether the figure of £60 million to £90 million is contained in that line?

John Swinney: The best thing that I can say is that a revised financial memorandum will come to the committee and it will set out the most up-to-date position on those issues.

Daniel Johnson: We have highlighted that the figure for the pay uplift for social care workers is around £100 million and we have acknowledged that the key driver of increased costs in the health service is pay. All of that underlines the importance of a national pay policy, but that was not published with the budget. When might that be expected and what might we expect to see in it? It is not just a question of pay, as questions about the overall size of the public sector workforce have also been alluded to. Will it include that level of information or at least an outline strategy from the Government?

John Swinney: No. A pay policy would never include that type of detail. That is essentially a consequence of the budget settlement that we are able to put in place and the degree to which we can configure services to deliver against those budgets.

The Government has a long track record of preserving public sector employment. We believe that it is important that our public services are well supported by strong levels of employment, although I acknowledge the challenges in recruitment to aspects of public sector employment, which are fairly extensive and which would be helped if we had a different approach to migration policy. I completed my response to one of the points that Liz Smith made to me by noting that I remain concerned about that issue.

I continue to consider the most appropriate time to set out a pay policy. There are a number of variables, not the least of which is the pattern of inflation. I made the point earlier that we set the budget for the current financial year when the inflation climate was benign and we then found ourselves wrestling with pay claims when the inflation level was far from benign. That will be one of the factors that I consider in determining the most appropriate point at which to set a pay policy.

Having said that, there is absolutely nothing to stop open dialogue with trade unions about the agreement of pay levels for 2023-24 at this moment. The absence of a pay policy is not an impediment to that dialogue being advanced. Obviously, we have the mechanisms available in Government to resolve any of those questions should they come to a point where they require a decision.

Daniel Johnson: The absence of a pay policy is not an impediment, but such a policy might be a useful context for those discussions. If all parties understand the broad parameters that the Government is working within, it allows for more constructive negotiations, does it not? I will push a little further. You have made absolutely no commitment around the timetable. May we have at least some indication of whether we should expect

a policy within months? Do you acknowledge that having that context might be useful?

John Swinney: The point that I was making in explaining the difficulty in which we found ourselves in this financial year was that, having set a pay policy at 2 per cent when inflation was benign, we then found ourselves in a completely different situation.

I question the value of having a pay policy, because I do not think that it actually provides much guidance. The 2 per cent policy provided zero guidance to people as to how they were to navigate this. During the financial year, we put a lot of arrangements in place within Government. I chaired a regular discussion between ministers across the Government to consider the current negotiations and give guidance as to what we considered acceptable in relation to resolving these questions.

Given the volatility that we have, I do not think that a pay policy would help to shape the context. However, I reinforce the point that its absence is not an impediment to dialogue. I really would not want anybody to think that we cannot embark on discussions with trade unions because we do not have a pay policy. That is completely the opposite of my intention.

Daniel Johnson: On the one hand, I accept your point. If a pay policy is merely an academic exercise that bears no relation to reality, I quite agree that it is of no use to anyone. However, if we are going to get through this, dealing with the challenges that I alluded to in my opening remarks and ensuring that we have adequate pay for people who do extremely valuable work, we need to have, if not a pay policy, a workforce plan to ensure that we have the right people doing the right jobs at the right time and at the right pay levels. Does that imply that we need what I think Audit Scotland has called for, which is a more comprehensive workforce strategy across the public sector?

I will set out some interesting facts. Since quarter 1 of 2020, the total devolved public sector head count has increased by 31,000. The split of that number is revealing, as it splits roughly into a third local government, a third NHS—we can understand it needing extra people given the pressures from Covid—and a third civil service. We have seen an increase of around 6,000 in the civil service alone.

I agree that we must protect public service jobs but, in our allocation of resource in the public sector, do we need to consider the balance between front-line and non front-line services, to put it in crude terms? Would you expect that balance to change, perhaps not in the course of this budget, but in future ones? Should a

comprehensive workforce plan consider and reflect that?

John Swinney: Some of the changes that Mr Johnson puts to me will arise from the changes in the powers and responsibilities of the Scottish Government. For example, in 2020, we were in the foothills of establishing Social Security Scotland. In fact, I am not sure whether we were even there.

Daniel Johnson: [*Inaudible.*]—Social Security Scotland at that point, is my understanding.

John Swinney: Significant change arose from that activity. Legitimate changes will come out of changes in the Government's responsibilities.

It is vital that all organisations have a workforce plan. We set out our financial frameworks, which have a significant influence on the nature of such plans. Organisations need to keep those up to date and relevant in order to meet the challenges of our time. That is the exactly the approach that the Government takes on all such questions.

Daniel Johnson: My reason for asking the question is that your immediate predecessor made the statement—and I think that you have reiterated it—that public sector head count will have to return to pre-pandemic levels. As long as the approach is stated as broadly as that, there will—rightly—be anxiety among people who work in the public sector as to whether their bit might come under scrutiny. Is that still the Government's commitment? If so, it strikes me that there needs to be clarity from the Government about how and over what time period that might be implemented. Otherwise, it will cause anxiety. Surely the Government needs to clarify what it means by that approach if it still intends to implement it.

John Swinney: That remains the Government's intention. It has largely driven a number of my responses, which have been designed to set out to the committee that, in the budget arrangements, there will be consequences that will have an impact on the size and scale of the workforce.

Returning to a point that I made in response to Mr Greer's questions, I note that the shape of the financial outlook in the years to come does not encourage a view about expansion. Comparatively speaking, we are facing two less challenging years in the first two years of the spending period and two tough years in the latter part of it. That is a different shape to what was envisaged in the resource spending review, but it remains relevant in that, previously, it looked as though we would be facing two years of acute challenge and two easier years. That position has been reversed, but we will still have to face those realities and budget provision will dictate a large measure of that.

Daniel Johnson: I have a final, technical question. The Government has made a

commitment to present this budget and provide an analysis of the spend using the classification of the functions of Government—COFOG—categories. I believe that that presentation is forthcoming. Will it set out the previous year's budget in a similar way, and will it use the budget as passed or as subject to subsequent reviews? If we are aiming to use that approach, having a basis for comparison is as important as having the categorisation.

John Swinney: I am not certain that we will show assessments for the prior year. If we were to do so, they would have to use budget act provisions. The like-for-like comparison that we always undertake involves the budget act provision versus the budget proposal. There is significant variability thereafter, but that approach gives us a valid comparison at one moment in time. I will confirm that point to the committee in writing.

Daniel Johnson: That would be helpful.

The Convener: Last but not least, John Mason.

John Mason: That was kind of you, convener.

Just to pursue the pay side of things, if my understanding is correct, an increase of 2 per cent was built into the budget for the current year. You indicated that we could cope if it went up to 5 per cent during the year, but once it went over that, cuts would have to be made to balance it out, and extra would have to be paid. What assumption on pay is built into next year's budget?

John Swinney: I have not built assumptions on pay into the budget. I have undertaken—using the most careful judgment that I can deploy, by looking at the challenges and pressures that exist across the public sector—to look at what the best distribution of public resources is and, obviously, judgments about pay have to be made within the parameters that are set by those judgments.

John Mason: To pursue something that Michelle Thomson raised, a practical point is that, if one or more of the pay disputes is not settled by 31 March 2023, that presumably means that there is money sitting in this year's budget that could have been paid out but will not be paid out until next year. Will that go into the reserve?

John Swinney: That depends on where we end up in this financial year, because I have an expectation—or, perhaps, a prediction—about where we might end up during this financial year, and as I have said to the committee a couple of times today, I am not in a position to see that in balance, so part of the sum that I have not yet been able to reconcile will involve an assumption on certain pay deals. For example, the difference between 2 per cent and 5 per cent for the teachers' pay deal will be in my contingency element, which I have not yet resolved. If I get to

the end of the financial year and have an underspend, and there is the difference between 2 per cent and 5 per cent for a teachers' pay deal, then that that will go into the carry-over, but if I have not been able to balance this year's budget, then that money does not exist.

John Mason: Are you looking at another emergency budget review before the end of the year?

John Swinney: I am constantly looking at what steps I have to take. I am not doing another emergency budget review, because I have done one already, but I am constantly looking at how to find a path to balance the budget, because it is my legal duty to balance the budget, and I have quite a number of variables to consider. We are not at the end of the financial year or the end of the road yet. We have a long way to go on that, and there are a lot of variables, not least of which is the supplementary estimates from the UK Government.

My point is that I might have a notional allocation of a sum of money to meet a pay deal, but if I do not balance the budget, that money does not exist.

John Mason: You mentioned the UK Government. If it ends up settling with health workers for more than it is currently offering, that will mean a knock-on benefit for us—is that right?

John Swinney: It depends on whether that arises out of an additional allocation to the Department of Health and Social Care, from which there would be a consequential. For example, no consequentials arise out of the announcements that were made by the UK Government yesterday on the management of NHS pressures, because, as I understand it, the funding came from existing, committed DHSC resources. If there were to be a cash injection from the Treasury into the DHSC to meet the costs of a pay deal—as I understand it, the DHSC cannot offer any more, because it does not have the money to do so—that could give rise to a consequential. However, we are in the realms of many uncertainties and unpredictabilities as we rehearse this question.

John Mason: That clarifies the matter—thank you.

On income tax specifically, I know that Liz Smith and the Conservatives would like to have no tax, or very little tax, but you are proposing an increase of 1p; other people would say that you should put it up by 2p or 3p, which would give us just a little bit more money. Can you explain why you chose 1p rather than more or less?

John Swinney: It is important that we do not just consider this as a question about why I chose 1p, because we have already taken a decision on

1p. This is where Professor Roy is absolutely right to say to us that the Government has to make a careful judgment about the degree to which tax divergence happens.

I have to make a balanced judgment—which I am confident in when it comes to the budget that I set out to Parliament in December—that the scale of difference in tax, when considered alongside the scale of difference of the delivery of the public propositions in Scotland around the social contract and the attractiveness of Scotland as a place to live and work, is in sufficient balance to justify the measure that I took.

To go further might take us into territory that would create some wider difficulties for the Scottish tax base and I need to be mindful of the importance of sustaining the Scottish tax base at all times.

John Mason: Have you considered, or would you consider, a more radical change, so that instead of just a 1p or 2p increase, we look at having more bands—for example, 21 per cent, 31 per cent, 41 per cent and 51 per cent—instead of the current jump from 21 per cent to 41 per cent?

John Swinney: We could take forward a range of options in connection with taxation. The Government looks at these questions and sets out its tax position to Parliament when that exercise is concluded. There are of course many other ways in which we could structure our tax system and the option exists for the Government to consider those points.

John Mason: I gather that the only plans for a new tax or a replacement tax relate to the aggregates levy, which is due to be devolved at some point. Is that the only new tax that is being looked at? What about a revamp of or a replacement for council tax—what is the timescale for that?

John Swinney: We have commitments in the Bute house agreement to take forward discussions on the reform of the council tax, and we will pursue that. There is also the local visitor levy bill, which will come to Parliament, but that relates to an additional form of local taxation.

The Government obviously gives consideration to sources of taxation. However, a point that is relevant to some of the issues that the convener raised with me earlier is that, if we were to develop any new taxes, we would have to seek the consent of the UK Government to introduce them. It is not something that we can just take forward under our own steam.

John Mason: I understand that, although I think that the Scottish social attitudes survey said that the public were open to higher taxes and redistribution. Also, the expert panel made the

point that we are not very progressive on property taxes generally at the moment.

John Swinney: There is obviously scope for us to explore many of these questions. Prior to the budget, there was a call from some—not all—stakeholders for the Government to use its powers effectively and comprehensively. I believe that we have done so; I also believe that we have done so in a context that is credible, deliverable and in balance. Some of the other proposals that I have seen would have had quite a negative effect on the Scottish tax base, on the Scottish economy and on Scottish society, and some of them I quite simply could not take forward—it was not in my gift to do so.

I am confident that I have taken the steps that are necessary to the maximum of the scope that is available to me to take such steps.

John Mason: Finally, we mentioned investment zones in our report and, in your letter to us of 20 December 2022, you said that you were waiting to see what the UK Government was going to do, because it had indicated that the policy would be “refocused”. Can you say anything about that, or do we just not know what the UK Government is doing in relation to that?

John Swinney: The committee will recall from the fiscal event or mini-budget—I do not know what to call it—in September that there were to be a plethora of investment zones. When the new Prime Minister came into office, I cannot remember at which stage—

John Mason: Which Prime Minister?

John Swinney: The current Prime Minister.

Michael Gove—I think; it was either him or John Glenn, the Chief Secretary to the Treasury—made it clear to me that they were not pursuing the plethora of investment zones. It was going to be a much more focused proposition. That dialogue is under way between us. We are not in a position to share any details about where that dialogue has reached; it is in the very early stages.

What I am certain about is that the proposition that was available in September is no longer available and it will be a much more focused proposition.

John Mason: Thanks very much.

The Convener: Just one more question from me, based on what you have been saying, with a bit of a glint in your eye, I think, over the past few minutes, which is about expectations and predictions. You talked about the legal requirement to make the books balance and you talked about contingency elements being unresolved. In the interests of transparency, what

sum of money are we talking about that remains unresolved?

John Swinney: Obviously, that is on a range because a number of variables are involved—

The Convener: I appreciate that.

John Swinney: However, it would be fair to say that the sum varies, depending on the assumptions, from about £200 million to £500 million.

The Convener: Thank you for that.

On that note, I thank the Deputy First Minister for his evidence and I thank his officials for their work. I also thank colleagues around the table.

Meeting closed at 12:58.

Correction

John Swinney has identified an error in his contribution and provided the following correction.

At col 54, paragraph 1—

Original text—

John Swinney: The first thing that I would say is that I do not consider our position to have a discernible effect on middle-income earners in Scotland. Essentially, the steps that we are taking are affecting individuals who are in the top two quartiles of the population in terms of earnings. We are concentrating the measures that we are taking on the top two quartiles—we are not discernibly affecting middle-income earners.

Corrected text—

John Swinney: The first thing that I would say is that I do not consider our position to have a discernible effect on middle-income earners in Scotland. Essentially, the steps that we are taking are affecting individuals who are in the top two deciles of the population in terms of earnings. We are concentrating the measures that we are taking on the top two deciles—we are not discernibly affecting middle-income earners.

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