OFFICIAL REPORT
AITHISG OIFIGEIL

Finance and Public Administration Committee

Tuesday 13 June 2023

Session 6

The Scottish Parliament
Pàrlamaid na h-Alba

Tuesday 13 June 2023

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FINANCE AND PUBLIC ADMINISTRATION COMMITTEE
18th Meeting 2023, Session 6

CONVENER

*John Mason (Glasgow Shettleston) (SNP)

DEPUTY CONVENER

*Michael Marra (North East Scotland) (Lab)

COMMITTEE MEMBERS

*Keith Brown (Clackmannanshire and Dunblane) (SNP)
*Ross Greer (West Scotland) (Green)
*Douglas Lumsden (North East Scotland) (Con)
*Liz Smith (Mid Scotland and Fife) (Con)
*Michelle Thomson (Falkirk East) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Alison Cumming (Scottish Government)
Shona Robison (Deputy First Minister and Cabinet Secretary for Finance)
Andrew Scott (Scottish Government)

CLERK TO THE COMMITTEE

Joanne McNaughton

LOCATION

The Sir Alexander Fleming Room (CR3)

Scottish Parliament

Finance and Public Administration Committee

Tuesday 13 June 2023

[The Convener opened the meeting at 09:30]

Medium-term Financial Strategy, Economic and Fiscal Forecasts and Policy Prospectus

The Convener (John Mason): Good morning, and welcome to the 18th meeting in 2023 of the Finance and Public Administration Committee.

Our first agenda item is an evidence-taking session with Shona Robison, the Deputy First Minister and Cabinet Secretary for Finance, on the Scottish Government's medium-term financial strategy, the Scottish Fiscal Commission's economic and fiscal forecasts from May 2023 and her priorities under the First Minister's policy prospectus. Ms Robison is joined by Scottish Government officials Kathy Johnston, deputy director in the office of the chief economic adviser; Alison Cumming, director of budget and public spending; and Andrew Scott, director of tax and revenues. I welcome you all to the meeting.

I invite Ms Robison to make a short opening statement.

The Deputy First Minister and Cabinet Secretary for Finance (Shona Robison): I thank the committee for inviting me here today. As I said in the chamber, this is the first MTFS that I have published as finance secretary. It is transparent about the issues that we face as we look at the public finances over the next five years, and it sets out how the Government will maintain a sustainable financial position over the medium term.

Although the Scottish economy has proved to be more resilient than expected, the fiscal outlook remains among the most challenging since devolution, with the Covid pandemic, the war in Ukraine and soaring inflation putting significant pressures on the economy, on society and, of course, on public finances. We are committed to tackling those pressures head on, which is why I have ensured that the MTFS does not shy away from highlighting the scale of the challenge ahead.

Although I welcome the recent fall in inflation, falling inflation does not reverse the increasing pressure on households and businesses, with prices expected to be about 20 per cent higher by the end of 2023 than they were at the start of 2020. Indeed, we are experiencing record falls in living standards, which are not set to recover to pre-pandemic levels until about 2026-27.

The Scottish Government's resource funding outlook has improved since the 2022 MTFS. The main drivers in that regard are significant improvements in the forecast net tax position, which has increased by an average of £1.1 billion per year since May 2022, and increases to the block grant as a result of announcements in the autumn statement and spring budget.

However, the funding outlook for the next financial year—2024-25—is set to be particularly challenging. The SFC has stated:

> "Once we account for social security spending plans and ring-fenced Scottish local authority funding, we expect there to be less real-terms funding in 2024-25 than there is in 2023-24."

We anticipate a negative tax reconciliation of £687 million, according to our current forecast, with the original forecasts having been produced at a time of significant economic uncertainty caused by the Covid-19 pandemic. As that figure exceeds the Scottish Government's borrowing limit by £387 million, it will reduce the amount of funding that will be available for the budget. We also expect a small real-terms reduction in the block grant next year.

The risk of reconciliations for forecast error exceeding the Government's borrowing limits will continue to grow. Borrowing powers are fixed in nominal terms, so there is now a 14 to 27 per cent probability of total negative reconciliations breaching the £300 million annual borrowing powers for forecast error. Therefore, I will continue to press the United Kingdom Government for further powers and for these limitations to be addressed as part of the fiscal framework review.

With regard to resource spending, our projections show an increase in spending from £45.2 billion in 2023-24 to £52.8 billion in 2027-28, meaning that our spending requirements could exceed our central funding projections by £1 billion in 2024-25, rising to £1.9 billion in 2027-28.

The key drivers for spending growth are the public sector pay bill, social security and health and social care. Inflation has significantly eroded our spending power, particularly on pay, as fairer pay deals for our valued public sector workers to support them through the cost of living crisis are driving spend above what was modelled at the resource spending review.

The pressures are also severe on capital spending, with the price of infrastructure projects rising by 14.1 per cent this year, according to the Office for National Statistics. The UK Government's failure to inflation proof our capital budget means that we are facing a real-terms cut every year up to 2027-28. Again, the challenge is particularly acute in 2024-25, when funding will reduce by 3.7 per cent in real terms.

On the current trajectory, we expect the divergence between capital funding and expenditure to grow to around £900 million by 2025-26. Therefore, these are incredibly challenging times, and I am committed to taking the difficult decisions in managing our public finances over the medium term in order to deliver on the key priorities for the people of Scotland and to mitigate the pressures that are being felt by Scotland's most vulnerable people.

This MTFS sets out the three pillars that will underpin that approach. The first pillar is a focus on public spending to achieve our three critical missions: a commitment to prioritise exploring targeting and adopting a multiyear approach to the budget; delivering a refreshed set of actions, as initially set out in the resource spending review; and delivering a 10-year programme of public service reform.

The second pillar is supporting business to invest and to create new jobs. We recognise the link between economic and fiscal policy to support sustainable inclusive growth and the generation of tax revenues. As well as supporting entrepreneurs, start-ups and scale-ups and helping business raise productivity, we need to find the fiscal headroom to expand our childcare offer, as that will be a key part of our approach.

Finally, the third pillar of our approach is maintaining and developing our strategic approach to tax policy. Our key commitments in that regard include establishing an external tax advisory group this summer, with the outcomes feeding into next year's budget and the Government's longer-term tax strategy, which is to be published alongside the MTFS in 2024.

The Scottish Government will continue to do everything possible with the limited levers that we possess to manage our public finances on a sustainable trajectory, and as part of the fiscal framework review, we will continue to make the case for having the fiscal powers and levers to enable us to meet the fiscal challenges now and into the future.

The Convener: Thank you, cabinet secretary. You have covered quite a lot of ground, but the committee has a lot of ground to cover, too. Each member will have about 15 minutes for questions and answers.

I will start. You mentioned the key figure of next year's budget and the potential negative income tax reconciliation, which was, I think, £712 million—actually, I think that the figure for negative tax reconciliation is £687 million in total. Can you explain a little more your thinking as to how you will deal with that? Can some of the money be borrowed? Where will the rest come from? We will direct our questions to you, cabinet secretary, and it will be up to you to bring in your officials.

Shona Robison: Clearly, it is a very challenging situation, given that the levers that we have do not allow us to cover that extent of negative tax reconciliation. We have the ability to cover up to £300 million, but that leaves a considerable gap, which is a challenge. As you can imagine, that is one of the key priorities in our discussions with the UK Government around the reform of the fiscal framework review.

We require a number of additional levers to manage not only negative tax reconciliation but peaks and troughs and economic challenges and events—for example, Covid and other shocks—that we do not have the levers to deal with, given our largely fixed budget and limited borrowing powers. At the top of the list in relation to the review is to gain a more expansive borrowing power to be able to manage the negative tax reconciliation.

As I said in my opening statement, the reason for such a large negative tax reconciliation related to the forecasts that were made during Covid and which, given the economic shock at that time, were clearly out. Two years later, we are having to deal with that, and in our discussions with the UK Government, we will want to press it for more flexibility in dealing with next year's negative tax reconciliation or any that should arise in future. I should also say for completeness that we anticipate the tax reconciliation forecast being in a much more positive position beyond next year, but we still have to deal with next year.

The Convener: That raises a range of different issues, which colleagues will come in on when they get their turn.

You have mentioned the fiscal framework review. Can you give us any idea of the timescale for that? Is there any chance that anything can be done for the 2024-25 budget, which looks like it will be pretty crucial? Is it even possible to separate out some of the longer-term issues? Obviously, getting the borrowing limit and some of the figures in that respect changed will be quite urgent. As we have discussed at committee and with the Fiscal Commission, given inflation and the increase in Scottish Government powers, the £300 million figure is really out of date, is it not?

Shona Robison: We are discussing the review, which is imminent, with the UK Government, but our priorities as we head into it are to ensure that the block grant adjustment methodology continues to protect the Scottish budget from potentially slower population growth in Scotland, which is important; to secure greater budgetary flexibility and the appropriate and required budget management tools more generally; and to retain protection from economic shocks that affect the Scottish and UK economies equally. It is about ensuring that we have the appropriate suite of policy levers and that we are not unduly exposed to risks outside of our control.

Those are the starting points. As the committee will appreciate, it is a negotiation, and negotiations require give and take both ways, but those will be the central areas on which we will require to see progress. Whether we can get something in place for next year's budget depends on those negotiations, which we are entering into in good faith.

The committee will also appreciate that negotiation requires a private space, which the UK Government has very much asked for. However, once that negotiation has reached a certain point, I will obviously want to provide more information to the committee, and to Parliament more generally, as soon as I am able to. However, that can be difficult. I guess what I am saying is that we cannot have a running commentary on a negotiation.

The Convener: We accept that we cannot have a running commentary, but both our committees and the committees at Westminster need to do a certain amount of scrutinising. Can you give us any idea of timescales? I believe that the initial report has been completed, but not published, and then there is meant to be a review. Do the negotiations come after that?

09:45

Shona Robison: We are still in discussions with His Majesty's Treasury about a suitable date for publication of the report. As it was jointly commissioned, we will obviously need to agree jointly the publication date, but we are committed to publishing it. There is no question about that—it is just a matter of when.

We are in the foothills of those negotiations; they are imminent, and we have been having correspondence backwards and forwards to try to shape the discussion. I am keen to be as open as I can, but I am mindful that the negotiation is quite tricky. We have our asks, and the UK Government will no doubt have its asks, too. However, I give a commitment that I will try to provide the committee with as much information on the detail as quickly as I can.

The Convener: Can you say anything about the issues that will be involved? Clearly, borrowing has been mentioned, and capital borrowing is another issue to address. There are other issues in the background that have not been dealt with, such as air departure tax and VAT. Do you expect those to be part of the negotiations?

Shona Robison: There are also issues with regard to the use of the reserve and so on. We do not envisage air departure tax being part of the discussions. The issue of VAT and assignment has been around for some time, and a lot of work has been done on some of the challenges with assignment.

I would describe assignment as very challenging. Where assignments have no direct relationship to Scotland's economic performance, we are really looking at a kind of statistical exercise, and that has inherent risks. We would be very loth to take all the risks without having any of the policy levers, so those discussions are on-going.

To be fair, the UK Government recognises the complexity of the issue and the risks. Therefore, we are trying to find a way forward that does not provide just another area of difficulty, and I am hopeful that we can get some agreement on that.

The Convener: You mentioned the external tax stakeholder group. Some of us feel that we have talked about tax quite a lot. Obviously, I fully agree that we need to engage the public more on why we have tax, whether tax is a good thing or a bad thing and other such questions. However, can you explain a little more why we need the external tax stakeholder group? To take a specific example, we have been planning to replace council tax for ages, but it still has not happened.

Shona Robison: On council tax, I am sure that you are aware of the joint working group that we are involved in with the Convention of Scottish Local Authorities, which is looking at local government taxation generally and broadly. Some progress has already been made on the issue of second homes and empty homes. The group will also have the space to look at council tax reform, albeit that it is a longer-term ambition to get that right and to get it agreed.

The working group provides a forum for those discussions to take place. It is also set against the backdrop of the new deal for local government. Part of that is about the fiscal framework, which is being worked on. A partnership agreement has to come first to set out the principles, and that will be announced soon. The fiscal framework will look at how local government budgets will be taken forward. I think that it is no secret to say that what we are talking about in that regard is more flexibility and working with local government on revenue-raising powers. One of the latest such powers is the visitor levy, which local government was keen to have. Councils can choose to use or not use that power. That shows that our direction of travel is to empower local government with more flexibility and more levers.

With regard to the external tax stakeholder group, it is important that we hear from a range of stakeholders. We will send out invitations imminently. The views of that group will be quite broad and will range from a desire for us to go further by using tax levers in a progressive way to a desire for us to be more constrained with tax levers. It is important that we hear a range of views. Ultimately, the Government will have to come to a view and, when we set out our stall on our tax proposition for 2024-25, it will take all those views into account. We will look at the pressures on the budget, but also at the need for fairness in taxation and the need to land in a space that balances all the competing demands.

As soon as we send out the invitations, I will be happy to furnish the committee with the detail of who will be on the group and the meeting schedule over the summer. It is my intention to have a series of meetings over the summer and in the lead-up to the budget.

The Convener: Colleagues might want to ask more about that, but I want to touch on one other issue. The medium-term financial strategy mentions that the Scottish Government will

"unapologetically direct our resources to those in greatest need",

and it talks about

"effective targeting".

Is that a hint that support and benefits for people will be more targeted, rather than universal?

Shona Robison: As I said at the time of the statement, we need to look at our spend through the lens of the core missions that were set out in our policy prospectus. Given the financial challenges, the spend needs to be really focused. The core missions relate to poverty, net zero and sustainable public services. A lot of our policies are already focused on the first core mission—tackling poverty. For example, the Scottish child payment is a key lever in helping us to meet our child poverty targets.

We have more than 500 programmes running across Government. I do not think that it is unreasonable to put those programmes under that lens and to look at how far they go in meeting the core missions. There is a balance to be struck. It is clear that we must consider what the objective of changing any of the programmes would be and whether we can create better outcomes for people who need support the most.

We need to balance that with the social contract that we have with people who pay their taxes. Those who are paid more in Scotland pay a bit more in tax. Obviously, they need to receive their part of the social contract for that, which comprises a range of services that goes beyond what they would receive elsewhere in the UK. After all that work has been done—it is on-going and will continue over the summer, so there are no conclusions as yet—we want to reach a position in advance of the budget that strikes that balance and creates a credible and fair set of propositions.

As I mentioned in my opening remarks, I would also like to create headroom for tackling some of the big issues. Our desire is to get more people into work and to help them to take on more hours and to get better-paid work, and childcare is a key lever for that. We have made huge progress on that—the childcare offer in Scotland is far in excess of what is offered elsewhere in the UK—but we need to go further. However, in order to go further, we need to have the headroom to be able to expand the childcare offer. We need to think about that, as well as about sustaining the services that we already have.

We will be open and transparent. Once that work has been done, we will present our proposition. It will be for others to consider that and to agree or disagree with it. If people want to propose alternatives, they will need to set out the detail of their proposals.

The Convener: Thank you.

Liz Smith (Mid Scotland and Fife) (Con): Good morning. I welcome the acknowledgement of the serious fiscal situation that the Scottish Government faces. It was good to hear that from you.

In your statement to Parliament on the medium-term financial strategy, you said that you committed to the Scottish economy being on a sustainable trajectory by 2026 and you made no bones about the fact that tough decisions would have to be made. I want to ask about that. All the forecasters and the Scottish Government statistics predict considerable increases in health, social care and social security spending over the next five years. I think that I am right in saying that, for social security alone, there will be an increase from around £5.3 billion to £7.8 billion.

Those policy areas all tie in with your comments about addressing poverty and the needs of the most vulnerable. If that spending is going to be so high, where will you be able to make the tough decisions that will help the fiscal situation?

Shona Robison: In addition to what I have just said, we are looking at all our programmes through the lens of the core missions. There are more than 500 programmes. We will consider how each programme will help us to address those core missions.

You are quite right about the increase in social security spend beyond the block grant adjustment. I make no apologies for that; it is the right place to invest money, given the cost of living crisis and our need to lift people out of poverty. However, we also need to be able to afford that, which will mean that some difficult decisions will have to be made. I cannot give you any more details because that work has not been completed and I would like to present it in the round.

The other pillar is growing the economy and the tax base. Data was published this morning that shows that there is cause for optimism there. For example, according to HM Revenue and Customs data for May 2023, which was published alongside the labour market statistics, there were 2.44 million people in payrolled employment in Scotland last month. That is an increase from April 2023, 56,000 more people than in February 2020—pre-pandemic—and 28,000 more than last May. That is a good barometer for income tax. There is some cause for optimism that that will feed through to a more positive tax reconciliation position, which would be good.

We need to do all of that. We need to ensure that our spend is focused where it needs to be, that we grow the economy and therefore the tax base, and that we have a fair and proportionate tax system. As we have said, we support progressive taxation whereby those with the broadest shoulders pay a bit more. That has brought in much-needed revenue to the budget. Had we not made those changes in Scotland, our public finances would be considerably less. All those issues must be looked at in the round.

Liz Smith: Thank you for that. I will come to the point about widening the tax base in a moment, but I want to go back to the issue of projected increases in health, social care and social security spending. You said that you are looking at 500 different programmes to see where potential savings might be made. Does that include the national care service?

10:00

Shona Robison: As the committee is aware, the programme and the parliamentary timetable around the national care service were paused in order to create some space over the summer for us to reach a more consensual position, not least with local government, which means that the financial statement around the national care service will need to be revised, too. The minister has committed to providing that information in advance of stage 1 of the National Care Service (Scotland) Bill, so that work is on-going.

As I have said previously, the national care service—as a former home care organiser, I could speak for the whole committee session about this, because I have seen up close and personal where the system does not work for people—will be important in ensuring that there is more consistency around national standards and ways of delivery so that people get the service that they would expect no matter where in Scotland they live. How we get to that point will form part of the discussions that will take place over the course of the summer. We need to have reform in that space.

As with systems everywhere in the UK, across Europe and beyond, the growth in the overall health and social care budget has been driven mainly by demographics—we have an ageing population for which we need to provide—and a workforce that continues to grow. We have had many discussions in Parliament about the need to avoid hospital admissions and to change some of the systems in order to sustain people in a way that does not result in everybody ending up in the acute system. Reform is an important part of that issue, as is ensuring that the spend can deliver what needs to be delivered.

Liz Smith: The committee is interested in the issue on two fronts. First, as you know, we have issues with the initial financial memorandum to the National Care Service (Scotland) Bill, the lower estimate for the cost of which was £1.3 billion, which is a considerable amount of money in relation to some of the things that we are discussing.

Given that so many stakeholders gave evidence in committee that showed that the particular national care service programme that the Scottish Government has put forward is not desperately popular—we have four committee reports that demonstrate that—will the Scottish Government consider realigning some of that money to help with other expenditure? I am asking for confirmation that that will be reviewed.

Shona Robison: It depends on whom you speak to, though. Stakeholders who are recipients of care are really keen for progress to be made on things such as national consistency, standards and other improvements. Where challenges exist, local government's view is that it does not want to lose control over the service that it provides. I think that we can find a way forward through all that. I guess that the money that is required will relate to what the service will look like and what the timeframe for its delivery will be; we have to get that bit right before the money comes into play. I suspect that there will need to be a new financial memorandum, which will, of course, be there for all to see in advance of stage 1.

Liz Smith: There will definitely have to be a new financial memorandum. I reiterate that four committees of Parliament are not happy with the current plan, which is why I asked the question.

Shona Robison: I appreciate that.

Liz Smith: Secondly, I turn to the tax issue. You have made no apology for a progressive tax agenda, but is it not the case, cabinet secretary, that the current structures are not yielding the increase in revenues that we need? In the 2020-21 budget, the revenues were only £96 million more than the amount that was subtracted from the block grant—that figure came from the Institute for Fiscal Studies, and the Scottish Government came out with the same statistic. What do you propose to do to ensure that the tax base is not only wider than it is now but also that the revenues that we get from tax overall increase? That is a major part of the equation that you described in your opening statement.

Shona Robison: I was pretty explicit about the need to grow the economy and making that link directly into fiscal policy and the need for the tax base to expand and grow. The national strategy for economic transformation sets out the economic plan, and we need to look at issues—such as childcare, which I mentioned earlier—in terms of how we help those who are either not in work at the moment, or who are in low-paid work or have hours that are not sustaining their household budget. Childcare is one of the key elements.

We will continue to make progress and there are positive signs in terms of gross domestic product. I do not know whether you saw the Scottish Development International figures for inward investment. There is a strong base there to work from, but we need to make sure that that translates into our tax revenues. The latest forecast of the net position for income tax in 2023-24 has also improved, rising from £325 million at the time of the Scottish budget to £411 million in the latest forecast. Although that does not have any impact on spending power, it is encouraging as we develop our strategy to ensure the fiscal sustainability of the Scottish budget, and we need to do more.

Clearly, how the fiscal framework works and how all the moving parts of the framework deliver what we have to spend within our budget is relevant. I set out earlier why having more levers under our control is important. That would help us to smooth some of the peaks and troughs that inevitably happen around all those moving parts in terms of when they land and what money is available for us to spend.

There are encouraging signs that income tax performance is improving, but we should not be complacent about that and we certainly want to make sure that we continue to see growth, so that there is a net positive benefit to the Scottish budget.

Liz Smith: Notwithstanding that, is it not the case that the overall tax revenues are nothing like what we need to be able to take in to address some of the funding gap? That is the problem, and today's statistics about unemployment, employment and economic inactivity were pretty stark about the numbers of people who are not actually in work at all, which means a loss of potential revenue. Then we have the issue with north-east jobs, which are some of the better-paid ones with people paying slightly higher tax rates. That money is not coming to the Scottish Government, so there is a pretty serious situation where the tax revenue that the Scottish Government is getting just now is nothing like what is required to deliver extra money for its public expenditure.

Shona Robison: The gap that you talk about cannot all be closed by taxation. I have not said that. What I am saying is that in our spending plans, focusing and targeting on the four key missions that I mentioned earlier, all the pillars are important. Tax is one, but it is not all. Having the powers to raise more money is clearly also important. If you look at the SFC forecast of nominal earnings in Scotland, it is talking about that going through a period of higher growth relative to the growth in earnings forecast by the Office for Budget Responsibility for the rest of the UK over the next five years, which will support our tax base. Therefore, although taxation cannot be the only answer, it is an important part of the equation and it is looking more positive. Aside from what we choose to do in terms of the tax policy, the revenues are looking more positive, which is something that we hope is welcomed.

On this morning's figures, unemployment is still below that of the UK; employment has fallen slightly but is still in a good place. You are right about economic inactivity, which is why the action that we are taking to support people into work is important. Bearing it in mind that there are acute labour shortages in many sectors, we need to join the dots to support people into work and to make sure that, whether it is through training, skills support or childcare, we help people into work and into better-paid work and additional hours if that is what they are seeking.

Liz Smith: One final question, cabinet secretary: what would you do to make Scotland more competitive in terms of tax in comparison with the rest of the UK?

Shona Robison: In terms of the rest of the UK, we of course have the lowest poundage—that was the number 1 ask of business and that is what was delivered. We are discussing with business the issue of non-domestic rates. Tom Arthur, the minister responsible, has a working group to look at the future and business is represented around the table.

We want to make sure that Scotland is seen as a good place to invest and the SDI figures over the last period show that 86 employment opportunities have been supported here in Scotland, in terms of new and sustained business. I think that that has delivered about 8,500 new jobs or sustained jobs, which are down to the inward investment decisions that companies have made. Those companies could have gone anywhere, but they decided to come to Scotland. That has got to be a sign of their confidence and I am sure that we would all welcome that.

Michelle Thomson (Falkirk East) (SNP): Good morning, cabinet secretary. Thank you for joining us. One of the things that the committee discussed with the Scottish Fiscal Commission at last week's meeting was the 14 per cent cut in capital expenditure from 2023-24 to 2028-29. I asked the SFC for clarification on the possible implications of that in relation to limiting our ability to invest. Traditionally, economists say that you should invest when your economy is not doing so well. The clear point that emerged was that capital expenditure has a direct impact on productivity. We know that there is a massive issue with productivity in the UK and, because of those limitations, there is an issue with productivity in Scotland. Have you been able to model that diminution of productivity? It does not seem to be understood that lower productivity leads to a lower tax take and that a lower tax take leads to less money being available to spend for public services. I do not know whether, behind the scenes, you or some of your officials are able to model that, because a 14 per cent cut in real terms will have a direct flow-through to the tax take available to spend on vital public services.

Shona Robison: I will start with the capital funding point. You are right—it is an extremely challenging capital outlook at a time when we want to be investing in the infrastructure, so it is the worst time for capital budgets to be cut. I remind the committee that our capital funding is expected to reduce by 7 per cent in real terms between 2023-24 and 2027-28. Of course, Barnett funding is by far the largest element of the Scottish Government's capital funding envelope, so it is essentially dictated by those decisions. It is indeed hugely challenging. As the MTFS explains, the challenges in the capital funding outlook mean that it may be necessary to prioritise borrowing capacity in the coming years, potentially at the expense of longer-term capacity, so we have difficult decisions to make about how we manage our way through that. Of course, we will have to set all that out and we will do so.

On the wider point about productivity, we have now appointed a chief economist, Gregor Irwin, who gave an excellent presentation in a pre-Cabinet discussion about many issues such as prospects, GDP and earnings growth, and increasing productivity is an important part of that. The NSET has also recognised that and what needs to be done. All that is critical.

10:15

On how we go forward, we publish progress updates on the delivery of capital investments twice a year; I think that one is due soon. The updates cover all the infrastructure projects over £5 million and all the programmes over £20 million, and they will show the importance of and variation in those infrastructure investments. We will come back to the Parliament to set out how we will manage through constrained capital funding going forward. I am sure that the committee will take a close interest in the detail of that.

Michelle Thomson: You lead me on to a wider point, which is that it is difficult for ordinary members of the public to understand the complexity of the fiscal framework and its implications. I appreciate that most members of the public find it hard to understand that there is a direct impact on tax take by limiting the Scottish Government's borrowing powers to pay for capex projects.

Perhaps a wider area is that people understand that limits on immigration mean that fewer people are paying tax. Are you considering how we make it clear to people that although we agree that there is an issue with the breadth of our tax base—everybody agrees with that—there are standard levers that you might want to pull to increase it? It is probably not mentioned in the report, but can you see that a differentiated immigration policy, fundamentally to increase the tax base, should be part of your discussions with the UK Government?

Shona Robison: You are absolutely right about the constraints on migration. I saw that there was quite a lot of commentary from the business community this morning about the challenges that businesses are having in recruiting to large sectors of the tourism industry. Business is very clear that that is down to them not being able to access the labour from the European Union that they were previously able to access. They are very explicit about that.

We are trying to do what we can. We are about to launch our new talent attraction and migration scheme, which attempts to encourage people to come and live and work in Scotland. As I said earlier, there are plenty of opportunities for people to do that and we want to promote those opportunities.

You asked about bringing those issues into discussions about the fiscal framework. You will appreciate that a lot of those discussions are quite technical because they concern issues such as borrowing powers, limits and the reserve, rather than necessarily being about the wider policy issues that form part of the backdrop to all this. That does not mean that such issues are not important—we raise them with the UK Government all the time—but the negotiations on the framework will be about the technicalities of what the framework is at the moment and the key things that need to change and be adjusted that will make a difference to our ability to smooth out things such as negative tax reconciliation. That will not be job done, however. Getting some adjustments to the framework is just part of a process. We want those additional levers, including over migration. Those discussions, calls and asks will of course continue beyond the detail of the framework.

Michelle Thomson: You will be aware that the committee is looking at public sector review, spending and so on, in the light of rolling back from the resource spending review. I note your three key missions, part of which will involve looking at public bodies and public sector reform. To what extent are you open to thinking ambitiously about that?

Part of my private worry is that agencies may look simply at efficiencies—although I suspect that a lot of them have been doing that for years, due to public sector constraints. We had an interesting comment that perhaps the bolder and more ambitious projects would need to be mandated by the Government. My simple question is, are you going to be able to have a level of ambition in what you look at? I appreciate that such projects have a cost in themselves and are very complex and time consuming. I do not negate that. I want to get a sense of whether it is about more than efficiencies.

Shona Robison: It needs to be about more than efficiencies. Efficiencies are the de minimis position. There are 129 public bodies, all of which do a good job but all of which have estates and back-room offices—and some of which do similar things. As a minimum, we need efficiency and digitisation.

For example, the National Records of Scotland has transformed its organisation. Scottish Water, too, has become very agile—able to respond and to drive efficiencies but delivering a really good service. There are examples that the rest of the public sector could learn from and we are requiring it to do so.

I have the responsibility of driving forward the overall picture of the programme of work that we have set out. I have had bilaterals with all my colleagues to make sure that we have clarity on the short-term objectives such as efficiencies.

We are also looking at the medium to longer term. People are working in different ways, now, so is there an opportunity to look at the vast estates across the public sector? In addition, are there opportunities for mergers or shared services? However, I want to avoid people becoming consumed by structural change rather than by the objective of improving services and getting better outcomes. We need to avoid tipping into the territory of "Who will get what job?" rather than "What are the better outcomes that we need for our public services?"

I see this as a very important area of work. If we create new public bodies, we will need to have thought through whether that is the right way to go, rather than that being the first go-to. Perhaps we have all been guilty of that. That landscape needs to be absolutely agile and to work to best effect in delivering good outcomes for the public. As I have said, I am driving that forward. I am happy to keep the committee updated on some of the detail and to point to examples of good practice and good outcomes.

Keith Brown (Clackmannanshire and Dunblane) (SNP): Good morning. Some of the questions that I was going to ask have been asked by Michelle Thomson and others. However, I will revisit, first, the fiscal framework. From what you have said, deputy first minister, the negotiations—about which, I know, you cannot go into detail—seem to be in the undergrowth and on the detail of the framework.

I wonder whether there are more fundamental issues. My view is that the fiscal framework has failed over time. Michelle Thomson talked about its impenetrability: people cannot possibly understand it. It is a bit like the UK tax code in that it is so complex. That cannot be good for transparency and accountability. Is that being looked at?

Secondly, the very basis of the framework, whereby expenditure in England is decided and then—literally consequentially—Scotland gets a share of that, seems to me to be totally counterintuitive to what devolution is meant to be about, which is recognising the differences in different parts of the UK.

Are those more fundamental issues being examined, or is the review really only about how the detail of the framework is working?

Shona Robison: First, I agree with your premise. We have to deliver against one rule that is set by the UK Government, and that is to balance the annual budget—that is a requirement. We have to deliver that fiscal rule with the limited fiscal levers at our disposal, with no ability to borrow for the day-to-day spending as other Governments would and with almost two thirds of our funding tied to UK Government spending plans. That is the backdrop to the challenges that we have.

I will answer your question in two parts. First, in terms of the review, the aim is to secure some immediate improvements. If you were looking at it on a scale of 1 to 10, with a major or complete rewriting of the fiscal framework being 10 and no change to it being 1, we are somewhere in the middle. We want some significant adjustments to the framework to help us manage some of that difficulty, but we are not going to get to a complete rewriting of the framework at 10—that is just not the territory that we are in. We need to take what improvement to our position we can get and that is what we will do.

Secondly, there is the wider question of the future. We absolutely need to get into a space where we look at the fiscal powers more generally and, obviously, we have a very clear ambition for what that looks like. However, there are also opportunities under devolution to have far greater fiscal power. Local authorities have more fiscal powers in terms of borrowing than the Scottish Government has and that cannot be right. The Welsh Government is similarly minded that we need to get back to some of the fundamentals here.

There might be opportunities in the future to negotiate something far more ambitious that can change some of the fundamental restrictions and inherent links to every UK Government funding and spending decision from which we take the consequentials and which quite often are not positive. That will not be achieved through what is quite a technical review of the framework in the here and now, but my ambition is that we need to go much further than that in terms of how the current system operates.

Keith Brown: That is, in some senses, disappointing, but I would hope for something even within the constraints of a technical-led review. It used to be said that the grant-aided expenditure formula for local authorities in Scotland was understood by two people. I think that half that number understand the fiscal framework, and it would be good to see that expanded, if possible.

On the general area of tax and resources, you mentioned a generally improving tax position. Research was published last night showing that there has been a 79 per cent increase in council tax in England, whereas in Scotland we are on average at about £300 or £400 less than what is paid in England, so we have a pretty competitive position across the tax take. Have you done any analysis on whether the generally higher public sector wages in Scotland are driving that increase in tax revenues? We have also had generally lower unemployment in Scotland, certainly over the past year or so. I realise that some of that is quite recent, although, again, evidence that has just been published shows, I think, that the increase in wage growth in Scotland was 8.4 per cent as opposed to 7.1 per cent in England and Wales. Is that driving the increased tax take?

10:30

Shona Robison: I will bring in officials in a second.

It is correct that we have a larger public sector in Scotland and that it is better paid. Inevitably, that will have an impact on the importance of the public sector for the tax base. However, that is also a challenge because of the pay deals. As we have a larger public sector, pay deals will have more of an impact. We have tried to avoid strikes—quite rightly, obviously—and we have landed pay deals that are above what was budgeted for. That is one of the challenges to which the SFC points. Nevertheless, that is an important element of our economy and in relation to delivering public services.

I do not know whether Andrew Scott has anything to add.

Andrew Scott (Scottish Government): I will comment briefly. When the Fiscal Commission was here last week, it talked about some of its modelling on that. However, the overwhelming tax take—three quarters—comes from the private sector. Therefore, what is happening there is much more significant. The Fiscal Commission has, overall, marginally upgraded its wage growth assumptions for the next year. That in part explains why the tax take is higher.

Keith Brown: Thanks for that. However, there is obviously a relationship between private and public sector wage growth and the economy.

My final question goes back to the point that Michelle Thomson raised in relation to the 14 per cent cut in the capital budget that we will see by 2028. I have been a critic of the £2.5 trillion of debt that the UK Government has accumulated, but most economists agree that debt that is incurred as part of capital expenditure is beneficial for an economy. That being the case—you may have answered this when responding to Michelle Thomson's point—is an argument being put to the UK Government that the current capital constraints are not serving the UK and certainly not Scotland? Beyond making the general point to it about how damaging an austerity budget is, on the capital side, is there any sign that the UK Government would be willing to move on that?

Shona Robison: We have raised capital expenditure as a key concern in relation to the budgets and the fiscal outlook. We have made all those points that, in terms of recovery from Covid and the cost of living crisis, investment in infrastructure is key and reducing that investment is the wrong decision. We have made all those representations robustly.

Will that position change? The outlook is the outlook. As things stand, there is no sign of that changing. However, we will watch the autumn statement carefully to see whether there is any recognition that reducing capital budgets is not the right policy or direction of travel at this time. I can tell you only what is in front of us at the moment, which is a very difficult outlook on capital.

Keith Brown: I will make a brief last point in relation to that. As I am sure that you will remember, in the 2010 to 2018 period, it was not unusual for the UK Government to announce sudden expansions of capital finance. We used to have to find shovel-ready projects. However, that seems to have fallen away. Do you not expect there to be any movement in relation to that?

Shona Robison: We are not aware of anything, but we sometimes find things out very late in the day. We do not get an awful lot of information in advance of the autumn statement, for example, so we do not know. However, we would clearly utilise any capital availability. We benefited at one point from a financial transactions increase, which we utilised for the affordable housing programme. That was the main use that we put FTs to. However, even that has dropped off, and it looks as if it will continue to decline. We will continue to make representations, because that is a key point in respect of the recovery.

Ross Greer (West Scotland) (Green): I have a factual question in the first instance, cabinet secretary, for which you might not have the answer to hand. Given that a number of public sector pay negotiations were concluded only after the Parliament passed the budget, do you know what the total public sector pay bill in Scotland now is for 2023-24?

Shona Robison: We know that it was £900 million above what the budget had programmed for. On the entire pay bill, I have in mind something around £24 billion, but I can come back with the exact figure. It is a large chunk of the budget. The figure is over £24 billion. It is clear that most of the money goes on pay. The point that I made to Keith Brown was that, because of the pay deals to try to avoid strike action, for example, and because of inflation costs and people's household budgets really suffering, we wanted to try to reach settlements that were as fair as possible. It is clear that pay is the main expenditure in the accounts and that any addition to the pay bill will be considerable. Those things need to be balanced.

Ross Greer: Thank you very much.

A couple of weeks ago, the committee had a round-table session with various representatives of public sector organisations. A point that came up during the discussion was that a number of bodies that were represented around the table had expressed an interest in the Scottish Government's potential pilot of a four-day week. I say this with the significant caveat that this is by no means the universal position of trade unions that represent workers in the public sector, but a number of public sector workers in Scotland and local union representatives in various public agencies have expressed an interest in that to me, partly in recognition of the fact that they know that pay rises in line with inflation across the board in the public sector are not affordable right now. Although they are, obviously, interested in maximising the pay offer that is made to their members, they are expressing increasingly significant interest in other changes to terms and conditions that might be beneficial to workers. Do you have an update on the progress on the four-day working week pilot?

Shona Robison: I will ask officials to come in on the pilot.

It is fair to say that pay negotiations are quite often not just about pay; other elements relating to terms and conditions will be brought in. The four-day week has become far more of a live issue, not least because people's ways of working have changed. Many more people work from home. I go back to Michelle Thomson's point about productivity. It is not just the public sector that is looking at the issue; some private businesses are looking at it, too. Essentially, if staff can maintain or improve their productivity over four days rather than five, why not give that flexibility to them? The issue is current, a lot of employers are considering it and there is the public sector pilot. Does Alison Cumming want to give an update on that?

Alison Cumming (Scottish Government): The plans for the pilot are being developed, and we are in discussion with a small number of public bodies who have expressed an interest in taking part in it. We have a very modest budget set aside for the financial year to support them in doing that, particularly to generate the evidence for and evaluation of the impact of the four-day working week.

Obviously, there are different ways in which a four-day working week can be operationalised. A number of those would reduce the number of hours worked in a week, which could have a cost to the public finances if we did not see productivity gains alongside that. All those factors will be taken into account in the pilot. I expect that we will be able to give the committee an update, if you would be interested in that, in the next couple of months.

Ross Greer: That would be fantastic. Just to clarify, is the intention to operate, or certainly start, the pilot at some point in the current financial year?

Alison Cumming: Yes. That is our intention.

Ross Greer: Grand.

Cabinet secretary, you mentioned the 500-ish initiatives and programmes that the Scottish Government has. I am interested in how we ensure policy coherence and best value for money across all of those, particularly in relation to the overarching missions around reducing poverty and net zero.

For example, there is something in the region of three quarters of a billion pounds of expenditure each year on non-domestic rates relief, or three quarters of a billion that is not taken in NDR income. Some of that clearly aligns with the Government's overall objectives—for example, the renewable energy generation relief makes a small contribution to the net zero objective.

What instructions are being given to your Cabinet colleagues and SG directorates to ensure that they are getting the best value for money out of every initiative that they are responsible for, which, on the face of it, might not necessarily have an obvious connection with one of the overarching objectives, but which could contribute towards it?

For example, in other areas of NDR relief that are not necessarily about lifting people out of poverty, you could apply a condition that a company could get that relief only if it signed up to pay at least the real living wage. How are you ensuring policy coherence and best value for money across the board?

Shona Robison: As I said earlier, the lens that each programme will be examined through is the lens of the core missions. Do our programmes reduce poverty? Do they help to grow the economy in a sustainable way? Do they help us to reach net zero? Do they sustain the public finances? There will inevitably be a bit of political oversight of some of that. We will work through all of that.

On business taxes—you spoke about NDR—I mentioned the sub-group that is looking at NDR, which Tom Arthur is chairing. I guess that there is an opportunity to look at whether the supports are the right supports. Are there supports that need to be more focused? What does the business community itself feel and want as regards the priorities? Not everything is a priority and not everything can be agreed, so we need to get a sense of what the key priorities are and what delivers from the point of view of sustaining small businesses, which are the bedrock of the Scottish economy, and our key sectors.

All of that will be worked through. As I said, one of the key asks from business has been around maintaining the lowest poundage in the UK, which has been an important support for business.

At the end of this process, we need to reach a position that is balanced, that delivers on all those key objectives and that is affordable. Some quite challenging decisions will have to be taken. There are many asks of Government, from every stakeholder and every part of society. We need to land that in a space that is fair and consistent, and that achieves the objectives that we have set out.

10:45

Ross Greer: I am still interested in how we achieve the policy coherence aspects of that. Is each cabinet secretary responsible for ensuring that the books balance in their portfolio in their own way, or has a set of instructions been issued on the basis of the First Minister's prospectus from April?

In the education portfolio, for example, I cannot remember off the top of my head whether there are conditions attached to the pupil equity fund. A lot of pupil equity funding is used by schools to pay for third and private sector organisations. That has clear additional benefit, but I do not know whether we attach, for example, a real living wage condition to the use of the PEF, which would align with the poverty objective in the prospectus. Is the overarching set of objectives being used to give instruction to each directorate and cabinet secretary to ensure that we are achieving policy coherence and value for money?

Shona Robison: The leadership role sits with each cabinet secretary to look at all the programmes in their area, check them against the core missions and consider how far they go in delivering the objectives. We then look collectively at all that and think about what the picture tells us and what decisions we should make in the light of the challenging financial outlook and the need to reduce poverty, deliver on net zero, have sustainable public services and ensure that our economy is as vibrant as possible. We need to work through all that, with the initial phase being the leadership role that each cabinet secretary applies to it.

Ross Greer: Thank you very much. That is all from me, convener.

The Convener: Douglas Lumsden is next.

Douglas Lumsden (North East Scotland) (Con): Oh! Thank you, convener—you took me by surprise.

Cabinet secretary, you mentioned earlier in response to questions from Liz Smith that the employment rate went down slightly. From what I can see, it went down by 1.8 percentage points, which is not a slight drop—it is a huge drop, in relative terms. What impact will that have on the tax net position that flows through? It looks as though the net position will be positive, but with a drop such as that, what changes might there be to the position?

Shona Robison: Clearly, the employment rate going down is not what we would have wanted to see, but there are a couple of points that I would like to make.

The employment rate is still in a good position, and labour market information tells us that there are big sectors in the economy that are struggling to recruit. Employment levels are still high and the economy is improving. The unemployment rate here is lower than the rate in the UK as a whole. The figure that I gave earlier, which I think was in response to Liz Smith, as a barometer for income tax showed that, according to HMRC data—the labour market statistics on payrolled employment in Scotland, which are important because those people pay tax—there has been an increase since April. There are 56,000 more people paying tax than pre-pandemic in February 2020 and 28,000 more than last May. As I said earlier, that is a good barometer for income tax, because it means that more people are paying more tax.

I am not at all complacent, which we should not be about the ONS figures. We need to see what the trend is and what the next set of statistics shows. In our economy, GDP is growing faster than it is in the UK, the unemployment rate is lower and earnings are growing faster than they are in the UK as a whole. The SFC forecasts show that that will continue. All of that is cause for optimism, but we should not be complacent about the employment figure.

The figure that we should be more focused on is the economic inactivity figure. We need to get that down and get more people into work. That is why work is being done to ensure that people who need extra support to get into work are given it. If you were to ask me which figure concerns me the most, it would probably be the one on economic inactivity.

Douglas Lumsden: How will you address that economic inactivity?

Shona Robison: NSET has set out how we will grow the economy in the key areas of growth. We also need to focus on, for example, employability and skills. The Withers review is showing the way forward on a much more coherent offer to people on skills development and upskilling.

Some huge areas of growth are coming in the green economy. We need to ensure that those opportunities reach everybody and are open to everybody, so we have a lot of work to do on employability.

There are some really good programmes for people who are in low-paid jobs, not just people who are not working. There are people who are in insecure employment and are being supported into more secure, better-paid employment. That is also an important part of what we need to do.

There is not one easy answer; all those approaches are important.

Douglas Lumsden: You mentioned the figures from the OBR and those from the SFC, which diverge quite a lot. The OBR's forecast for earnings growth is 2 per cent and the SFC's is 2.6 per cent, although the SFC says that that

"should be interpreted with caution as it is sensitive to changes in ... the ... forecasts".

How much confidence do you have that earnings growth in Scotland will outperform that in the rest of the UK? As we all know, that is key. When it comes to the fiscal framework, we have to outperform the rest of the UK in order to receive positive block grant adjustments.

Shona Robison: In 2022, the Scottish economy grew by 4.9 per cent compared to 4.1 per cent in the UK. The latest ONS data—it is not just the SFC that says this—show that earnings are growing faster in Scotland than they are in any other part of the UK. I think that the annual growth to April for median earnings was 9 per cent in Scotland and the next highest was 8 per cent.

Scottish earnings are forecast to grow faster than those in the rest of the UK. As you mentioned, the SFC forecasts that average earnings will grow by 4.6 per cent this year, compared to the OBR's forecast of 4.1 per cent for the UK. The SFC will have done a lot of detailed analysis of the Scottish economy, and we should have confidence in its forecasts.

Let us look at the tax data. I keep coming back to that because it is hard evidence—it is what we know. The provisional in-year pay-as-you-earn tax data for the first 11 months of 2022-23 suggest that growth in Scottish PAYE income tax receipts has outperformed that in the rest of the UK. That is not a forecast; it is actual evidence.

We are not being complacent—we have to keep an eye on the situation—but there is cause for some optimism.

Douglas Lumsden: Yes, there is cause for optimism, but the SFC also says that the figures

"should be interpreted with caution".

Shona Robison: Of course, but any forecasts always have an element of risk and caution. The HMRC data show a trend in actual, here-and-now evidence that gives us some cause for optimism that the forecasts will show that trend continuing. However, we cannot be complacent.

Douglas Lumsden: I will move on to public sector reform. You mentioned that you are working on an overall picture of what the public sector landscape will look like. When do we expect to see that? I imagine that it will be key for setting the budget in years to come.

Shona Robison: We are not starting from scratch here. You will have heard my predecessor, John Swinney, talk a lot about public service reform. We have worked over quite some time to get public bodies thinking in a more sharply focused way about efficiency, how they work with one another and their future plans for delivering better outcomes in a more efficient way.

There is a 10-year programme of public service reform that seeks to do all that. My job is to bring a pace and acceleration to that work across Government, to have a radar beyond the individual bits and to ask, "What does that look like as a collective public sector picture?" I also need to ask how we make sure that we do not just do the minimum in that space, but that we get every public body to maximise what they do in the most efficient way. I mentioned NRS and Scottish Water. How do we link up the best performing bodies and make sure that what they have done happens everywhere?

Douglas Lumsden: You mentioned public bodies working better together. Will they do that voluntarily, or do you think that that has to be mandated? The evidence that we have heard is that it is possible to get proper, big reform only when it is mandated centrally.

Shona Robison: NRS and Scottish Water were set the same challenge as other public bodies—that of ensuring that they can live within their budgets, which are under strain. They therefore need to drive their own efficiencies and consume their own smoke, if you like. However, they also need to improve outcomes, and that is quite a challenge.

Scottish Water has carried out a huge programme of efficiency and reform. NRS is similarly focused on digital opportunities. They were not forced to do that, but they have had the leadership in their organisations to recognise the need to do that. We need to make sure that that work progresses at that pace, not at the pace of the slowest. There is an organisation that brings together the leadership of all the public bodies, and work is being done to share that best practice and to ask, "How did they do it? What did they do? How can we do it?"

Public bodies know that there is no option, given the financial outlook, other than to make sure that they get on with the reform that they need to do. It might look a bit different in each organisation, but some of the principles are the same, and that work needs to be done at pace.

Ultimately, ministers will have responsibility for oversight to make sure that that happens at pace. I have talked in bilateral meetings with my colleagues about the need for pace here. Ministers are aware of the need to ensure that every organisation gets to the point of being as efficient and productive as it can be and having the best outcomes for the people it serves.

Douglas Lumsden: All the examples that you gave are of bodies becoming more efficient in themselves and working better but still operating within their silo, although that might not be the best word to use. I am talking about how we get bodies to work better together across the board—that includes, for example, getting local authorities to work better with health boards and integration joint boards. Will that have to be mandated in future?

Shona Robison: Public bodies absolutely need to get out of their silos, but I think that they recognise that. The opportunity for shared services, for example, is being actively looked at and should be actively looked at. There might be opportunities for organisations to go further than that through mergers.

Local authorities are in a bit of a different position, because they are independent organisations. However, many of them are looking at the potential to work more closely with their neighbouring authorities on shared services. There are also discussions about whether local authorities can share people where there are discrete, specialist roles, rather than each of them trying to recruit from the same small pool of specialists.

11:00

I think that, given the opportunities through the new deal, there is an appetite for things to be done differently. There is active discussion in Orkney and the Western Isles about a single island authority. That is something that they have raised previously, and they are keen—I guess that "champing at the bit" might be the description—to get on with it. Again, the driver for that is that trying to recruit people, particularly to leadership positions, involves all the different organisations fishing in the same small pond. They have come to us and said, "We need to do things differently," and we want to encourage that.

There are some issues to be overcome, not least given the point that you made about the relationship between local authorities and health boards and the lines of accountability there. However, those issues are not insurmountable. Where there is a will, there is a way. We want to be very encouraging and permissive where local government and other parts of the public sector generate ideas for reform, rather than saying, “No, it’s always been done this way.” The idea of a single island authority could end up being a trailblazer for how things might be done differently elsewhere, so it is maybe one to look at.

Douglas Lumsden: Do you think that the bodies concerned will do that voluntarily or will it have to be mandated? That is the key thing that I am trying to understand.

Shona Robison: The single island authority idea has come from the local authority and public sector bodies in the islands. They came to us and said, “We’d like to go ahead and scope out how this could be done in a different way, but we need you to be on board,” and we have said that we are on board. We need to work through the detail, clearly, but we absolutely want that innovation, fresh thinking and reform. That will be a really interesting one to watch.

Douglas Lumsden: Am I out of time, convener?

The Convener: Yes. If we have a little time at the end, I might let you back in, but it is Michael Marra’s turn now.

Michael Marra (North East Scotland) (Lab): Thank you for all the information that you have given so far, cabinet secretary. On 16 May, we took evidence from the permanent secretary on a range of issues regarding operation of the civil service. One issue that the committee is interested in is the status of the resource spending review and the objective of returning the public sector workforce to its pre-Covid size. The permanent secretary talked a little about progress in that area. When we asked about the status of that policy within Government, he said:

> “I do not think that that has been publicly stated by the new Government.”—[*Official Report*, *Finance and Public Administration Committee*, 16 May 2023; c 36.]

Can you give us clarity on whether that approach remains the policy of the Scottish National Party Government?

Shona Robison: You are right to point out that that was the position. The Scottish budget for 2023-24 set out that it is for individual public bodies to ensure that workforce plans and projections are affordable in 2023-24 and for the medium term. We are really looking for public bodies to ensure that their workforce numbers and models are within their financial envelopes.

If we were to take a policy of returning to pre-Covid levels across the whole public sector, that would be a bit of a blunt tool. In recognition of the fact that some areas of the public sector will, by necessity, have to continue to grow—the health service is one example, and social security, when it is delivering its programmes, is another—the policy needs to be more nuanced than that.

Essentially, we have said that public bodies’ workforce numbers need to be affordable within their financial envelopes. We have set out some workforce scenarios in the MTFS, with low growth being 0.3 per cent and high growth being 2.2 per cent. That is in recognition of the fact that some parts of the public sector will continue to grow. The approach is more nuanced. However, the overall message is that the public sector must ensure that its workforce is affordable and that projections are within the financial envelope.

Michael Marra: So, the “blunt tool”, as you put it, that was used by your predecessor, Kate Forbes, has been dropped.

Shona Robison: Each public body will now be responsible for ensuring that it has the right size of workforce to deliver what has to be delivered, and that that workforce is affordable. As I said earlier, we recognise that areas such as social security and the health service keep growing, for all the reasons that we understand.

Michael Marra: I am taking that answer as a yes. It is important to have clarity, given the frank lack of clarity from the permanent secretary, whose department seems to be pursuing a particular trajectory, but who said that he had no clarity on the stated policy of the Government. It might be useful if that were stated in clear terms. Am I correct in saying that your answer is yes?

Shona Robison: Yes.

Michael Marra: Okay—that is fine.

Shona Robison: We do not want exponential growth, because bodies have to live within their financial means, but we must recognise the issues in social security and healthcare.

If you would like me to do so, I am happy to write to the committee to set that out.

Michael Marra: That would be useful for the committee and for the permanent secretary and leaders of departments.

Part of the commentary recognised that there would be pay growth, which you have outlined today, and that we have to understand affordability in the other areas. On that basis, commentary about the medium-term financial strategy was that some areas are light on costings—the national care service and childcare have been mentioned by a number of colleagues. The Institute for Fiscal Studies has said that there is little sense of how the gap will be closed. Having read the strategy and listened to you—if I can characterise it this way—it feels a little bit like you are hoping that something will come along.

Shona Robison: No—not at all. I would not accept that. To be blunt, I need to set out in the 2024-25 budget how we are going to deliver all this within a balanced budget. There are no ifs or buts. The detail will be there and we will set out how we are going to close the gap, because we have to. Unlike other Governments, which can borrow their way through difficult scenarios, we must balance our budget. That is a fiscal rule that we cannot escape and we have only limited levers to use in balancing the budget. Since 2007, we have had unqualified accounts from the Auditor General for Scotland, which show that we have managed to do that, despite the increasing challenges.

You mentioned NCS and childcare, which are areas where we need to create some headroom. I spoke earlier about childcare. If we want to increase the very good offer that already exists, which we see as being clearly linked to the priorities of growing the economy and growing the tax base, we must create headroom to do that. We might not be able to do that in one year, in 2024-25, which will be a very challenging year in which to do anything at great scale, but we can set out multiyear objectives and priorities for spending. I will be setting out the detail for the budget and for our next few years of spending plans and priorities. Childcare is a good example. We must ensure that we set out what and how we will deliver in the next few years.

Far from

“hoping that something will come along”,

we must consume our own smoke. We have very limited levers, so what you have said could not be further from the truth.

Michael Marra: In his campaign to become First Minister, the First Minister made a pledge on childcare. Is it right to say that that can be delivered only if there are further cuts? That is what headroom is.

Shona Robison: I have set out three areas in relation to public finances. The first is prioritisation and ensuring that we are targeting and examining all our programmes—as people would expect any Government to do. The second is that we increase our tax base so that we keep more of the tax that we raise. The third is continued consideration of what our tax policy is. All those levers are equally important in ensuring that our public finances are sustainable and that we can create headroom.

Looking to the future, we will need to see what the Chancellor of the Exchequer’s autumn statement brings on whether the position on the block grant will improve over the next few years. We just do not know that. We also do not know whether there will be potential for consequentials in areas including childcare. Of course, those will have to be factored into all our policies.

Michael Marra: That is my point—the Scottish Government is waiting for something to come along. The Institute of Fiscal Studies, the Scottish Parliament information centre and the Fraser of Allander Institute have commented on the size of the gap and the fact that there seems to be no indication of a strategy on it. They say that the Government’s approach to how the gap might be closed does not feel very strategic. You are also highlighting that there might be further consequentials that will allow us to do some of the things that we have already committed to doing. Does that not—

Shona Robison: No—that is not what I said. I said that we will create the headroom that we will need to enable us to progress our policies. What I do not know, though, is what else might transpire on the block grant in the future, and whether there will be changes to the outlook or to consequentials. Those are all additional elements that could be factored in, but we cannot assume any of them so we must, on that basis, set out what we know and how we will manage the fiscal position in the future.

The point that I am making is that there are things that we do not know that might have material impacts on what we set out. We need to manage that: impacts could be positive or negative. All I am saying is that that is a material factor. If we can set out our plans and say that we will do A, B, C and D but we then get to the autumn statement and something changes in a negative way, that will clearly have an impact on what we have set out.

Michael Marra: Okay—thank you.

Do you have a date for a meeting on the fiscal framework with ministers from the UK Government?

Shona Robison: We are meeting ministers over the next few weeks.

Michael Marra: Can you say anything more specific?

Shona Robison: Imminently. [*Laughter*.]

Michael Marra: That is not much more specific.

Shona Robison: That is in case the date changes.

Michael Marra: Okay—that is fair. That meeting is obviously of significant interest to the committee.

I will pick up on a point that was made earlier about the relative competitiveness of council tax rates. It sometimes feels as though that aspect is commented on less often. For example, over the past few years in our home city of Dundee there has been a cut of 180 in the number of teachers, and the number of additional support needs teachers has dropped from 165 to 93. A cut in attainment challenge funding has resulted in 22 posts being lost, including speech therapists in nurseries and schools. Those are all significant issues. Does not having a supposedly competitive rate of council tax therefore incur real costs for some of our most vulnerable people?

Shona Robison: The council tax position in England has been set out previously. On the future position, there has been more flexibility on council tax setting here. We have moved away from the freeze that was previously in place and councils have more flexibility on the rate that they set.

The financial challenges that local authorities face are the same as those that are faced by the public sector more broadly. The policies that we have put in place on issues such as the attainment challenge funding and pupil equity funding have been important levers.

Dundee City Council has put in place an extensive package to support people through the cost of living crisis. For example, the food insecurity network provides for and supports organisations that are literally putting food on people's tables. In tough times local authorities have to make tough decisions. However, looking to the future, that is one of the reasons why we need the new partnership agreement and the new fiscal framework with local government.

11:15

There are two aspects to that. First, local authorities need more flexibility in how they spend their money, so we need to reconsider ring fencing. That does not mean that all ring fencing will go overnight, but we acknowledge that local authorities have lots of pockets of funding, all of which have to be reported on and some of which are very constraining, so that probably does not make a lot of sense. The partnership agreement will set out the principles of how we will work together, and the fiscal framework will set out details of how that will work.

Our giving that flexibility will mean that local authorities will, over time, have more levers at their disposal. That is the second aspect. I am keen to work with local authorities to find out what other fiscal levers they might wish to have. A few relate to second homes, empty properties and a visitor levy, but there might be other levers that local authorities want to discuss, and I am keen to have that discussion with them.

Michael Marra: I am interested in the specifics of how that would work. Between 2010 and 2022, the number of additional support needs teachers in Dundee dropped from 165 to 93—it almost halved. It is about the balance. The other week, the report from the national discussion on education said that, in essence, there is a crisis in additional support needs teaching across the country. That is one of the principal concerns of the whole education system—from children, to their parents and families, to teachers. How can we drive through the kind of change that you are talking about in relation to fiscal arrangements to ensure that we address that problem? Surely that trend cannot be allowed to continue.

Shona Robison: There are two roads that we could go down. We could increase ministerial decision making over what local government spends its money on and increase ring fencing, or we could give local authorities more fiscal flexibility in deciding whether to spend more money on ASN teachers or other areas that they see as being priorities. We are at a crossroads, and those are the two routes.

My view is that giving local authorities more flexibility in their budgets will allow them to set the priorities for their local areas. Local authorities might well want to prioritise ASN teachers. However, we cannot have it both ways. In Parliament, we quite often hear calls for local government to have more flexibility in its funding, but there are then calls for ministers to be held to account for, for example, the number of ASN teachers or staff in each local authority area. We have to agree some fundamental principles, which will be set out in the partnership agreement and the fiscal framework.

On the overall local government settlement, I do not want to diminish the challenges that local authorities face, but we have to recognise that we have increased the resources that are available to local government in 2023-24 by more than £793 million. That represents a real-terms increase of £376 million, or 3 per cent. However, inflation and pay deals are impacting on local government in the same way as they are impacting on the Scottish Government, so we included £100 million in the budget to help local authorities with the pay deal for teachers.

It is not easy to wrestle with those things. There is no easy answer—if there was, it would have been done. We are at a crossroads, and my view is that giving local authorities more financial flexibility in how they spend and raise their money is a better road to go down than increasing ring fencing and Government direction.

The Convener: Douglas, you are keen to come in briefly on something else.

Douglas Lumsden: Thank you, convener—I will come in briefly.

We see that non-domestic rates will increase by more than 10 per cent over the next three years. Can you give us some narrative around that? Is it because of growth or because businesses are going to be charged more?

Shona Robison: I will maybe ask my officials to come in on that. The NDR is a hugely important and core part of local government funding, so we need to make sure that it continues to bring in much-needed resourcing. We have a strong package of reliefs, which is worth an estimated £749 million in 2023-24. Of course, there will be an important balance to strike on where we go with NDR in the future. That is why a consultative group has been brought together, under Tom Arthur, to look at how we go forward with NDR.

I assume that the 10 per cent increase is related to growth. Is that something that we should get back to the committee on?

Andrew Scott: That is contained in the SFC's estimates and is based, very roughly, on the figure that we get to by 2028-29, but I think that we should get back to the committee on the nature of that projection.

Douglas Lumsden: The figure that I am looking at is the increase between 2023-24 and 2026-27, which is more than 10 per cent.

Andrew Scott: I am looking at £3,374 million in 2028-29, which is also about 10 per cent.

Douglas Lumsden: Yes, but it is £3,437 million by 2026-27.

Shona Robison: We will write back to the committee with details of why we think that that has increased, if that is okay.

The Convener: That is great. Thanks.

One of the points that has come up from a few questioners is the uncertainty of the timing of the UK Government's budget setting. That issue has come to the committee quite a lot. Although it is a request rather than a question, can you press the UK Government? I know that you cannot dictate to it.

Shona Robison: If only we could!

The Convener: If we had consistency every year as to when the UK Government budget was set, we could build on that budget, and local government and everybody else could come afterwards.

Shona Robison: I will make that point. The uncertainty does not help; it is really challenging all round. I commit to engaging with the committee as early and as much as I can, through the budget setting process for 2024-25.

The Convener: I thank the Deputy First Minister and her officials for their evidence today. That concludes the public part of today's meeting.

The next item on our agenda, which will be taken in private, is an evidence session with the Cabinet Secretary for NHS Recovery, Health and Social Care, on a proposed contingent liability.

11:22

Meeting continued in private until 12:03.

Published in Edinburgh by the Scottish Parliamentary Corporate Body, the Scottish Parliament, Edinburgh, EH99 1SP

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