



OFFICIAL REPORT
AITHISG OIFIGEIL

Finance and Public Administration Committee

Tuesday 12 September 2023

Session 6



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FINANCE AND PUBLIC ADMINISTRATION COMMITTEE

22nd Meeting 2023, Session 6

CONVENER

*Kenneth Gibson (Cunninghame North) (SNP)

DEPUTY CONVENER

*Michael Marra (North East Scotland) (Lab)

COMMITTEE MEMBERS

- *Ross Greer (West Scotland) (Green)
- *Jamie Halcro Johnston (Highlands and Islands) (Con)
- *John Mason (Glasgow Shettleston) (SNP)
- *Liz Smith (Mid Scotland and Fife) (Con)
- *Michelle Thomson (Falkirk East) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

- Tom Arthur (Minister for Community Wealth and Public Finance)
- Laura Duffy (Scottish Government)
- Dave Moxham (Scottish Trades Union Congress)
- Laura Parker (Scottish Government)

CLERK TO THE COMMITTEE

Joanne McNaughton

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament

Finance and Public Administration Committee

Tuesday 12 September 2023

[The Convener opened the meeting at 09:30]

Subordinate Legislation

Land and Buildings Transaction Tax (Green Freeports Relief) (Scotland) Order 2023 [Draft]

The Convener (Kenneth Gibson): Good morning, and welcome to the 22nd meeting in 2023 of the Finance and Public Administration Committee. Before we start, I congratulate all members of the committee who contributed to ensuring that we won the powering change award at last week's *Holyrood* awards. It is a committee award, not an individual one for me, as convener, so I thank everyone. I doubly thank Michelle Thomson, who won the political hero award on Thursday night. [Interruption.] I named everyone on the committee to ensure that you were all recognised, including new members such as you, Jamie—you also got the nod.

Let us get on with the meeting and the matter at hand. The first item on our agenda is an evidence session with the Minister for Community Wealth and Public Finance on a draft Scottish statutory instrument—the Land and Buildings Transaction Tax (Green Freeports Relief) (Scotland) Order 2023. The minister is joined by Scottish Government officials Laura Parker, who is the land and buildings transaction tax policy lead, and Laura Duffy, who is head of the green freeports policy and delivery unit.

I welcome our witnesses and invite the minister to make a short opening statement.

The Minister for Community Wealth and Public Finance (Tom Arthur): Thank you, convener. Good morning. I congratulate the committee on its award, and I congratulate Michelle Thomson on her award. However, having been in front of the committee several times, I know that praise and flattery will not get me off the hook, so I will get on with the matter at hand.

The Land and Buildings Transaction Tax (Green Freeports Relief) (Scotland) Order 2023 provides for relief from LBTT, in part or in full, for qualifying transactions in a designated green freeport tax site. Green freeports are designed to support businesses to create high-quality and well-paid new jobs. The successful bidding consortia are

currently developing business cases that will set out plans to establish hubs for trade, investment and innovation, to promote regeneration and to make a significant contribution to achieving our net zero ambitions.

The Scottish and United Kingdom Governments have made a commitment to deliver a green freeport model that meets the needs of the Scottish economy and offers all the benefits that are available to those who are situated in freeports in other parts of the UK. LBTT relief is offered on that basis. It is part of a package of incentives for green freeports and is designed to be equivalent to the stamp duty land tax relief that is offered to other UK freeports, which will ensure that the overall objective of parity of treatment between freeports and green freeports is met.

The LBTT relief supports the wider programme by encouraging investment in specific tax sites on land that is underdeveloped or undeveloped. The legislation enables businesses to start to benefit immediately from the relief when the tax sites are designated, and the relief will be available for up to five years.

I welcome the evidence that has been submitted by a range of organisations in response to the Government's call for evidence and the Scottish Government's consultation on the draft instrument, and I look forward to members' questions.

The Convener: As you will probably know from reading last week's *Official Report*, there was quite a lot of discussion and deliberation regarding all aspects of the green freeport proposals. One issue is the importance of attracting green jobs into green ports. I felt that there was an element of frustration from our witnesses last week that there does not appear to be a definition of what a green job is. For example, on two occasions, Derek Thomson from Unite the union asked whether someone making deliveries on an electric bike counts as a green job. Does the Scottish Government have a definition of what a green job is? We do not want to be comparing apples and oranges in our discussion, with everyone around the table having a different view of what a green job might be.

Tom Arthur: That is a very important point and I recognise that various Administrations—at devolved level, at local government level, at UK level and at international level—will be engaging with the issue. In the private sector, various organisations will be assessing their commitments on sustainability and attempting to find a stable definition of green jobs. Clearly, as tackling the climate emergency has, in recent years, moved to the top of the political agenda domestically and internationally, there has been an evolution in some of the language that is used.

For example, in work that was published in March, the Office for National Statistics defined a green job as

“Employment in an activity that contributes to protecting or restoring the environment, including those that mitigate or adapt to climate change.”

That definition is sufficiently broad to encompass a range of green jobs, including those related to decarbonisation and net zero. It is anticipated that the ONS will, in the next few months, publish estimates of green jobs in the UK.

Other work has been done in this area. The green jobs fund, which the Government launched in 2021, uses the definition of

“Jobs in businesses that produce goods or provide services that benefit the environment or conserve natural resources.”

In addition, the climate emergency skills action plan from December 2020 states that green jobs include those in

“renewable energy, circular economy and zero waste ... and the nature based sector with wider ‘green skills’ sitting on a spectrum ranging from highly specific requirements in sectors directly supporting the transition to net zero such as energy, transport, construction, agriculture, and manufacturing, through to more generic requirements across all sectors to thrive in a net zero economy”.

I recognise that that definition is broad and all-encompassing, which might, understandably, prompt questions about where one draws the line. However, it speaks to the point that net zero is not something that we do specifically; it runs through all aspects of the economy.

As outline business cases are developed and we monitor and evaluate the progress that is made through the green freeport model, there will be further refinement and greater understanding of what we mean by a green job. I hope that, as an opener, what I have said helps to set the scene and shows some of the developing thinking in Scotland and elsewhere.

The Convener: That is very helpful. However, you quoted three definitions, and it would be good if we could boil things down to one specific definition, because, if we do not do that, it leaves room for ambiguity, which we want to reduce as we move forward.

Another issue that came up was the timescale that will be available for investors. Unite the union and David Melhuish from the Scottish Property Federation felt that five years was not long enough. Unite said that the period should be as long as possible, and David Melhuish said that it can take up to nine years for investments to come through. If we want to ensure that green ports are impactful as early as possible and that they attract as much investment as possible, is the Scottish Government thinking of extending the period

beyond five years? What is the logic behind choosing five years?

Tom Arthur: We do not have specific plans to extend the period beyond five years. Part of the logic of five years is to have parity with freeports in other parts of the UK. If the Parliament approves the regulations, the permissive environment for the LBTT relief to come into effect will begin on 1 October, but the relief can be claimed only following tax site designation, which is a process that involves HM Revenue and Customs and HM Treasury. The period is five years to ensure that there is parity with the offer that is being made elsewhere in the UK.

We anticipate that there will be early investment and we recognise that some investment will take place to enable further investment to take place at a later date within the five-year window. Of course, we will keep the overall five-year period under review should there be any delays or unanticipated problems regarding tax site designation. I stress that the five-year timeframe is to ensure that there is consistency and parity with the offer that is available with freeports elsewhere in the UK.

The Convener: The Scottish Government specifically talked about freeports being different from green ports, so why is it not trying to give itself a competitive advantage by making the period seven or nine years? The Government has put a number of strictures on green freeports, which one might say makes them less competitive, albeit that there are some businesses that one might not necessarily want to attract in the first place. If the Government is looking for Scottish green ports to be a success, why not do something different from what the UK is doing? Are you being prevented from doing that, or is it a Scottish Government decision?

Tom Arthur: On the approach that we are taking in Scotland, the need for parity in some areas is recognised. We are also seeking to tailor the model specifically to the comparative advantage that we have in Scotland, hence the particular focus on net zero and decarbonisation.

On the point about a longer timeframe for specific relief, such as for LBTT, I can appreciate the points that have been made around having to assemble capital and put together various bids and proposals. However, we also want to incentivise development to happen as soon as possible, because there is a pressing urgency with regard to the activity that we want to see in green freeports, particularly given the role that that will play in our decarbonisation and net zero agendas.

As I said, the timeframe brings parity with regard to the offer and we want to ensure that we incentivise investment and development

happening at the earliest stage possible. Of course, we will have a process of monitoring and evaluation throughout the period during which the reliefs are in place and there will be transparency through the information and data that will be published by Revenue Scotland. Therefore, there will be ample opportunity for Government, other stakeholders and the Parliament to measure the impact that the reliefs are having.

The Convener: With regard to that pressing urgency, I find the numbers that have been suggested to be quite fantastic: 25,000 jobs for Cromarty and 50,000 for Leith. With regard to Cromarty, you will be expecting people to move to those jobs, but what is being done to build the schools and homes that those people will need? You are talking about trying to get those people in early, so how is the infrastructure being upgraded to ensure that that can happen? You will have to provide a huge level of support in terms of the infrastructure behind the green port, to ensure that people have somewhere to live and take their kids to school, apart from anything else.

Tom Arthur: I will highlight two elements. Within the overall package for each of the green freeport sites, there is £25 million of seed capital available. More crucially, on that point about having a coherent approach and taking into consideration infrastructure, including schools, local government is part of that consulting approach and is a key partner with regard to its responsibilities around planning. It is about ensuring that we have all the right people around the table and that, given its statutory responsibilities in that regard, local government is at the table. That will help to ensure that there can be a co-ordinated approach to address the issues around infrastructure that you highlighted.

The Convener: Displacement is a key issue. For example, Cambridge Econometrics said that, of the enterprise zones that were set up in the UK, which lasted from about 1984 to about 2012, 50 per cent of the 126,000 jobs were, in effect, displaced from elsewhere. In a Scottish context, between 2012 and 2017, there was a net increase in private sector jobs in the enterprise zones that were set up in Scotland of just 16,000, compared to an initial forecast of 54,000, and 34 per cent of those were relocated from elsewhere through displacement.

What lessons are being learned from that? I understand that the UK had seven freeports, up until about 2012, when the last one, Liverpool, closed. Therefore, they have not had a great history of success in doing what it says on the tin.

Tom Arthur: The question of displacement is key and it is an active part of our consideration with regard to engagement with the individual green freeport sites and the overall process. It will

also be a key concern for local government as partners. The risk of displacement comes with transferring jobs from one part of the country to another, of course, but with this model we are trying to create new high-quality jobs—jobs that respond very specifically to the assets and strengths of particular areas. We can recognise where there are similarities but also where there are distinct differences between each of the green freeport sites.

09:45

I come back to the discussion that took place at the committee's meeting last week, to recognise that the model that was referred to, which goes back to the 1980s, is in many respects from a different era. It is important to learn lessons and to recognise the possible risks of seeking to incentivise development in one part of the country. It is also important, though, to recognise that we are in a different era and that some issues that were pertinent in the 1980s and early 1990s are not so now—or not to the same degree. The current labour market is different and we also have a different focus, which is on the primacy of tackling the climate emergency and on decarbonisation.

I also come back to the key point on displacement, which is that our policy is about creating new, high-quality jobs as opposed to moving jobs from one part of the country to another.

The Convener: Assuming that every single job created in the green ports is in a completely new industry, a new manufacturing business or whatever it happens to be, people in other parts of Scotland and beyond who are highly skilled will still want to move there. Will that not exacerbate labour shortages and create inflationary pressures in other parts of the economy?

Tom Arthur: It could create challenges, but in designing the reliefs we have sought to incentivise new developments. The reliefs that the committee is considering today specifically concern LBTT. The policy affects land that is either undeveloped or underdeveloped—that is, land that would perhaps not see any development were it not for such intervention. It concerns a reserved area, but the employer national insurance contributions for new jobs that are created will help to mitigate the risk of jobs being transferred from one part of the country to another.

I am ambitious, in the sense that I hope that if there is any displacement it will not be from other parts of Scotland and that people from other parts of the UK and the world will be attracted by those high-quality jobs and so will come to work in Scotland. Speaking as the minister with

responsibility for public finance, such highly paid jobs will help to generate revenue to support our public services. There is a real opportunity for us in cutting-edge industries, in which we have comparative advantages and where we can be world leaders, to attract people from outwith Scotland and from other parts of the UK and beyond. I certainly hope that that has happened.

Where we have been able to take action on the shaping of the tax policy—for example, on LBTT—that has been done to incentivise development that would otherwise not take place.

The Convener: Okay. Just one last question from me. There was loads of information there and I am sure that other members will want to come in.

According to David Melhuish,

“the officials behind the UK Government’s freeports prospectuses ... were very impressed with the prospectus that was put together by the Scottish Government”.—*[Official Report, Finance and Public Administration Committee, 5 September 2023; c 46.]*

However, Unite the union seemed frustrated that there did not seem to have been much engagement with the trade unions. Its representatives said that the City of Edinburgh Council was not listening to them or keen to engage with them. There was almost an accusation that that was deliberate. What engagement is the Scottish Government having with its trade union partners on such developments?

Tom Arthur: As you will appreciate, on the specific point about how individual local authorities choose to engage, it would not be appropriate for me, as a minister, to comment on decisions that are properly for them. Certainly, the Government’s broader approach, both on the development of fiscal economic policy and on wider industrial relations, is to have close engagement with our trade union partners.

I ask Laura Duffy to provide some background on the broader engagement that has taken place in the process of developing the proposal.

Laura Duffy (Scottish Government): When we initially looked at the proposal there was engagement with trade unions. When Mr McKee was the lead minister, he met trade union representatives and a wide range of stakeholders on a number of occasions to discuss the developing policy.

As the committee will have seen, we have put fair work at the heart of the policy; the minister referred to that. We cannot mandate trade union recognition, but we have made a strong recommendation for the workers’ voice to be recognised in the governance structure of the green freeport.

As part of the business case, the two green freeports will be required to set out their strategies for embedding fair work principles across their areas. That was part of the policy development that was specific to Scotland that we undertook as a ministerial priority. Throughout the process, we will be looking closely at the level of ambition in that part of the outline business case on embedding fair work.

The Convener: Thank you. That concludes my questions for now. I open up the session to colleagues around the table. First, we will hear from John Mason, to be followed by Liz Smith.

John Mason (Glasgow Shettleston) (SNP): Minister, you have used term “underdeveloped” a number of times, and it is used in the schedule, the policy note and so on. Can you clarify what “underdeveloped” means? Presumably, if there is a one-storey building on a site and it is knocked down and a five-storey building is put in, that is developing the site. Therefore, is every site “underdeveloped”?

Tom Arthur: There is “underdeveloped” and there is “undeveloped”. I think that there is also obviously going to be a relation between the two. For some sites to reach their development potential, it will require other developments to take place around that—not to give too convoluted an answer. This is about helping to allow areas to realise their full economic potential. The LBTT relief is designed to support those developments to take place which, as I stated earlier, would not otherwise take place.

As regards what we would define as “underdeveloped”, there will, of course, be variations from place to place. This is a place-based approach, so there will clearly be some latitude in what “underdeveloped” means in specific instances and circumstances, based on the context. Laura Duffy might be able to add something about the terminology more broadly.

Laura Duffy (Scottish Government): Part of the detail in the prospectus sets out the criteria for land being regarded as underdeveloped or undeveloped. As part of the process that will run alongside our assessment, with the UK Government, of the outline business cases, the Treasury and HMRC will scrutinise the proposed tax sites and look at the maps very closely to ensure that those sites meet the criteria for undeveloped or underdeveloped land. That is part of making sure that we are not attracting businesses into areas that are already quite active. Some of the proposed tax sites are basically just a piece of empty brownfield land. Those that are not will go through a process similar to the brownfield land sites of a very strict scrutiny process by the Treasury before any approval for the tax sites is switched on.

John Mason: I can understand if it is a piece of brownfield where something has been demolished and the land has just been sitting there—we certainly have that in Glasgow. From the Treasury’s point of view, is it quite black and white what is undeveloped and what is underdeveloped?

Laura Duffy: Yes. It is set out in the green freeports business prospectus. I do not have the details to hand, but we can point you in that direction if it would be helpful.

John Mason: That is helpful—thank you. The proposed new schedule talks about “Full relief” and says:

“This paragraph applies to a land transaction if ... at least 90% of the chargeable consideration for the transaction is attributable to qualifying green freeport land”.

I wonder why it is 90 per cent. Why is it not 80 per cent or some other figure?

Tom Arthur: Laura Parker can come in with those details.

Laura Parker (Scottish Government): The 90 per cent for full relief is intended to capture scenarios where, in practice, most of the transaction is used for a qualifying purpose. If you have a factory with 95 per cent qualifying use but 5 per cent is used for caretakers’ quarters, which is not typically a qualifying use under the legislation—

John Mason: Sorry?

Laura Parker: A caretaker’s quarters is technically residential use. The 90 and 10 per cent catches those scenarios where, in practice, the site is wholly used for a qualifying purpose.

On how we identified the right number to use, we gave consideration to the full range, but the range of 10 per cent to 90 per cent was used for stamp duty land tax, so, for consistency, we also used those figures for LBTT.

John Mason: Okay, thank you. I think I understand that. The schedule also includes the idea of “Partial relief”. Is that tied into the same thinking?

Laura Parker: Yes.

John Mason: Right. Could “Partial relief” mean a variety of levels?

Laura Parker: Yes. Partial relief could be 20 per cent qualifying use or 50 per cent qualifying use—anything between 10 and 90 per cent. The less than 10 per cent figure allows us to give consideration to the entire substance of the transaction. If more than 90 per cent of the land or the building is not being used for a qualifying purpose, that is not really the type of transaction that we want to seek investment in in terms of the tax sites or to provide relief to, because that is not

really in line with the wider objectives of the green freeport programme.

John Mason: That is helpful—thank you. Minister, I think that the Scottish Fiscal Commission has said that the cost is under £5 million and so it is not taking a view, because it does not consider that amount to be material. That is still a chunk of money, however. Do we have an figure on the actual cost?

Tom Arthur: As you correctly identified, the SFC stated that the relief would be below the materiality threshold of £5 million. Given that such things are demand driven, it can be challenging to forecast with the degree of precision that we would like. However, there is an expectation that many of the transactions that would take place would be leases rather than conveyances. If we look at leases as a proportion of total LBTT revenue for Scotland in 2021-22, for example, they work out at about 3 per cent overall. Therefore, we are talking about relatively small sums of money, but such reliefs can be very meaningful and impactful with regard to decisions on whether individual transactions should take place. Of course, we should bear it in mind that we anticipate that the transactions would not take place were the relief not in place.

John Mason: The convener asked about whether things might be displaced. If a business goes to one of the green freeport sites instead of, say, Glasgow, that would mean less money coming into the Government.

Tom Arthur: The tax designation sites are very specifically drawn, with clearly defined boundaries. Clearly, overall, green freeport sites are chosen for a number of reasons, against criteria, but place is an important part of that. Those sites in particular parts of Scotland will have comparative advantages, but we are seeking to remove barriers to investment that would perhaps not take place elsewhere but that can take place at those sites if those barriers are removed. Again, on the point about displacement, there is potential investment that would not necessarily take place were the reliefs not in place.

John Mason: Are you saying that there is, in effect, no loss of revenue to the Government?

Tom Arthur: I am not going to try to outthink the SFC on this and say exactly that. The point that I am making is that, if we adduce the evidence that is available—the past revenue from leases as a proportion of overall LBTT, and the assessment in the SFC’s May 2023 “Scotland’s Economic and Fiscal Forecasts” that the relief would fall below the materiality threshold—we find that we are talking about a relatively small amount of money compared to overall LBTT revenue, never mind the whole of devolved and semi-devolved tax

revenue. However, that is not to say that the relief does not translate into a meaningful impact on individual transactions that can positively influence commercial and investment decisions.

Liz Smith (Mid Scotland and Fife) (Con): I will pursue that point, in line with the committee's job of scrutinising the budget. In your answers, you have given an idea of what the potential costs might be. Has the Government done some arithmetic on the benefits that would accrue, in particular from the creation of new jobs, in the five-year period that you spoke about earlier? The hope is that those would be highly paid jobs, so we would get a greater return through tax revenues from income tax and so on. Have you done any analysis of the benefits and the costs?

Tom Arthur: I do not have a specific set of numbers that I can share with you, but I anticipate that the successful outcome would, as you highlight, lead to a net gain for the Scottish economy and, indeed, the public finances. The exact timescales in which that will be delivered will, of course, be influenced by a number of factors, including individual commercial decisions and the overall macroeconomic environment in which we find ourselves. However, to come back again to the key point, I note that this is about seeking to incentivise investment that would otherwise not take place; clearly, economic benefit and gain would come from that. However, I am not in a position to give specific timescales or to forecast when we would get a return on the investment.

Liz Smith: Nonetheless, one of the criteria that would be used to judge whether we are successful is whether, overall, there is a net gain to the Scottish economy over a certain period of time, because that is obviously what is important.

Tom Arthur: Of course. The convener alluded to the ambitions on job creation at both sites. If those are realised and provide high-quality and high-paying jobs, it follows that there would be a significant return on investment relative to LBTT exemptions, for example.

Liz Smith: On a related issue, the Scottish Fiscal Commission has made a very important point about our demographic structure, which is that one of the problems that we have in the Scottish economy is the size of the working population compared with the total population. Do you believe that the green ports initiative can help not only to create new jobs but to get some people who have left the labour market back into it to help with some of the issues that we have in the Scottish budget?

10:00

Tom Arthur: I certainly hope that we always consider ways in which to encourage people who are currently inactive and have the potential to re-enter the labour market to do so. Although I cannot speak to any specific strands of work with regard to targeting particular groups, we all hope that that would be an outcome of the approach and that some of the jobs that are created through the initiatives will create opportunities for people to re-enter the labour market and bring their skills to bear on an exciting set of industries.

Liz Smith: It is quite an important aspect. As the Scottish Fiscal Commission set out, the challenges are huge. One of the biggest is in ensuring that our labour market is fit for future developments. It is not just a case of ensuring that new investment exists to create new jobs and attract people into them; we will also need the skills and talents of people who have taken themselves out of the workforce, who tend to be in a particular age group. It might be quite helpful, when considering the two areas that are designated, to have a look at that aspect because that incentive might be increasingly valuable to us.

In relation to the relevant skills that go with new green jobs—I accept the definition that you mentioned earlier, about being as flexible as possible—do we need to do a lot more to ensure that the skills and training that we are providing fit the new green opportunities in a way that can benefit the labour market?

Tom Arthur: You would expect me to say in answer that a priority for the Government is to ensure that our workforce is skilled and able to take up the new opportunities. There is broad recognition that we have a highly skilled workforce in Scotland, which is reflected in a range of metrics—not least of which is our consistent success in attracting foreign direct investment.

Laura Duffy might want to add something specifically on how that thinking will link up with green freeports and how the business cases have been taken forward.

Laura Duffy: Skills is a key strand in the business cases, so we are looking for the green freeports to tell us how they will address the skills need within them. We will look closely at the skills strategy that they will submit as part of the process.

Liz Smith: Can I ask for a little detail on that? When ports make their application, is that a key part of what their application must contain?

Laura Duffy: Yes. Part of the business case is about their skills strategy. An outline business case will include a skills strategy, which we will

scrutinise closely to ensure that it marries up jobs with supply in the labour market.

Liz Smith: Can you give us some detail on what else is in an application?

Laura Duffy: Do you mean in the outline business case?

Liz Smith: Yes.

Laura Duffy: The outline business case form is published online and sets out all the various parts of the application. We will look at plans for planning, skills and fair work; the strategy for investing seed capital funding; tax-site management arrangements; and customs plans. As you would expect, the business case will come in two parts: we will look at the outline business case first, which is the part that unlocks the tax incentives alongside the tax-site designation, then at the full business case, which focuses more fully on the detailed financial aspects—the broader-brush skills, security, risk, governance, and fair work. The heavy lifting is done in the outline business case, on which the full business case builds.

Liz Smith: So, are applications most likely to be successful if you see benefits to the Scottish economy overall, with regard to the revenue that they will bring in?

Laura Duffy: Applications will be most likely to be successful if they have a full and rigorous business case, which we will consider across both Governments.

Liz Smith: Thank you.

Ross Greer (West Scotland) (Green): The rationale that you have outlined this morning is that companies will be given tax breaks in exchange for being encouraged to pass on the benefits thereof to their workers and to the wider economy. Is that not trickle-down economics?

Tom Arthur: The rationale that I have sought to set out, specifically on LBTT, is that they are sites that would otherwise not be developed. They would remain as they are, or underdeveloped. The intention of the incentive, beyond the points that I made about parity with the UK freeport model, is to incentivise investment in sites where development would otherwise not take place.

A trickle-down approach relates to things that would otherwise take place through alternative models or vehicles. It is also predicated on the notion that people on high incomes will spend their money in ways that are economically, socially and environmentally impactful rather than hoard it in assets or offshore.

It is about getting investment on the ground and development of land in Scotland that would

otherwise not be developed or not be developed to its full potential.

Ross Greer: You mentioned the traditional issue with trickle-down economics, which is that the wealth that is generated is then hoarded offshore. Can any offshore entity benefit from this LBTT break? A company that is based in an offshore tax haven will be able to benefit from this tax break, will it not?

Tom Arthur: I cannot speak to the commercial decisions or operating arrangements of companies. If companies are operating in a way that is compliant with overall UK tax law and are in a position where they are making an investment, they would be treated just as any other company, depending on how it is constituted—

Ross Greer: I am sorry to jump in, minister, but this is not about UK tax law: it is about a devolved tax. It is—potentially, if it so wished—within the power of the Scottish Government to, for example, exclude any company that is based and incorporated in a tax haven from benefiting from an LBTT relief. However, you have chosen not to do so in this case. Why is that?

Tom Arthur: The provisions around avoidance are general avoidance provisions. Laura Parker might want to come in and speak to those, because it is an important point in which the committee will be interested.

Laura Parker: The relief, in and of itself, has its own conditions that claimants must meet in order to benefit from the relief. That involves using the land in a qualifying way, through development and so on.

As part of Revenue Scotland's on-going compliance activity, it will assess—at the point of claim and throughout the three-year control period—whether a claimant meets the conditions for relief. If any artificial arrangements are put in place for a company to achieve a tax advantage that it is not otherwise entitled to, at that point, the general anti-avoidance provisions that are set out in the Revenue Scotland and Tax Powers Act 2014 will be on point.

Tom Arthur: The important point about the control period is that if development does not take place within three years the relief can be withdrawn. Ultimately, the relief will take place and be utilised only if development takes place on the ground. It is about attracting investment into specific sites and seeking to incentivise and unlock development in sites that would not otherwise see development or—as I said previously—would not be developed to their full potential.

Ross Greer: The emergency measures that the Scottish Government put in place during the

pandemic excluded companies that are based in recognised tax havens, such as the Cayman Islands, from benefiting from Scottish Government emergency relief. The Scottish Government is therefore clearly capable of recognising what is, and is not, a tax haven, and whether a company is based in a tax haven for the purposes of—albeit legally—avoiding tax.

The Scottish Government is allowed, within the devolved settlement, to make policy decisions to exclude such companies from, for example, public procurement grants or tax relief. It has chosen not to do so in this case of tax relief, so I am simply asking for the rationale as to why.

The premise of the relief is about providing companies with advantages so that, in exchange, they will pass on those advantages to the wider economy and their workers. Why, then, are companies that have, for the purposes of avoiding tax, based themselves in offshore tax havens such as the Cayman Islands, still allowed to benefit from this further tax break when they could have been excluded? That is entirely a matter for the Scottish Government.

Tom Arthur: I have spoken previously about one of the key aspects being consistency with the SDLT arrangements elsewhere in the UK. However, ultimately, the benefit that is going to be conferred is development. I apologise for labouring this point, but it is development that would otherwise not have taken place. It is not as if there is potential competitive advantage for one particular model of company over another, or the potential of alternative development taking place on the site. It is about whether development takes place or not, or whether it takes place to its full potential. That is the rationale that underpins the relief in relation to underdeveloped or undeveloped land.

That aspect focuses on the fact that the relief will be accessible only if development takes place. If there is a transaction and a commitment to development, but such development does not take place within three years, the relief will be withdrawn. There has to be development. The second aspect is the broader parity that we have sought with regard to the arrangements elsewhere in the UK. Laura Duffy might want to comment on where we have sought parity on the arrangements for freeports and where we have diverged.

Laura Duffy: We have sought parity across the overall package as far as we can within our existing fiscal frameworks. As the committee will be aware, the tax relief package is made up of devolved and reserved reliefs. From a policy perspective, we have sought to design reliefs so that they mirror the UK ones as closely as possible, in order to ensure that there is a level playing field across the piece. If the reliefs start to

go out of sync, one or other becomes disadvantaged. As I alluded to earlier, on the development of the policy that is specific to Scotland, the Scottish ministers focused keenly on the fair work aspect, which we wrapped into promoting the creation of high-quality jobs and the introduction of the specific objective on promoting decarbonisation and a just transition to net zero.

Ross Greer: If the fair work criteria are legally required of companies that operate in a freeport or that, in this case, benefit from LBTT relief, could such a company pay its workers the minimum wage—not the living wage—and refuse to recognise trade unions, but still access such relief, which is a tax break?

Tom Arthur: LBTT relief sits separate from the other reliefs. The way in which LBTT is constructed as a tax is that it is transactional—it is based on the transaction. Earlier I set out the criteria for when that could be withdrawn—that is, when development does not take place within the control area.

As for the broader points on fair work and monitoring, those must be evidenced through the outline business case and go into the full business case. Laura Duffy might want to add to that.

Laura Duffy: Because the two tax reliefs that we are putting in the package are property based, applying fair work principles is very difficult. The way in which such principles are built in is by our scrutinising for them at the bid stage. As I mentioned earlier, we will look for the green freeport strategy of embedding fair work principles across the green freeport area. When we come to assess that, we will look for ambition. The monitoring and evaluation framework that will sit across the whole programme will scrutinise that as it rolls forward into the operational phase. We will look closely at what the green freeports say they will do and whether they have delivered on that.

Ross Greer: My understanding, though—please correct me if I am wrong—is that the fair work criteria are not requirements. They are strongly encouraged, there is guidance on them and they are clearly what the Scottish Government wants out of the policy—I recognise that—but if the criteria are not required there is no direct consequence if a company is not meeting them as is defined in the fair work convention that the Scottish Government signed up to.

Tom Arthur: In touching on that point you are colliding with the reality of schedule 5 to the Scotland Act 1998 and the reservation of employment law. For example, we do not have the power to legally require trade union recognition in such contexts. We are trying to work constructively and in partnership with business and other partners to promote fair work. Although the

Scottish Parliament does not have the power to legislate in those terms, we have a role, through leadership and the convening power of the Scottish Government, to seek to encourage businesses to adopt such practices. Throughout the process we have been clear about our expectations.

Ross Greer: I recognise that employment law is a reserved area and that power over it is not devolved. For years, we were told that, under schedule 5 to the Scotland Act, it is not legally possible to require businesses that bid for public procurement or which receive business grants from Government agencies to pay their workers at least the real living wage. That is now a requirement that the Scottish Government has delivered on—it is a legally binding requirement—so it turns out that we can do that within our devolved competences.

Let us put aside trade union recognition for a moment. I recognise that that area is untested, although I encourage the Government to test it.

It is clear that we can require businesses to pay workers—in this case, within a freeport—at least the real living wage. We have just done that with procurement and public grants, so why are we not doing it with the freeports?

10:15

Tom Arthur: As you will appreciate, procurement is distinct. It is a devolved competency, but we have to operate within broader frameworks at UK and World Trade Organization level. It is distinct from employment law. I recognise that we have made significant progress on procurement over the past 17 years since the McClelland review. We published an independent report at the start of the year highlighting the benefits from the journey that we have been on with sustainable procurement. I recognise that there is much more that we can do in that space, and the issue was raised in the recently closed consultation on community wealth-building legislation. The analysis of that will be published later in the autumn. I highlight that in relation to the topical matter of procurement.

Where we can take action, we will, and when we are challenged to go further within devolved competencies, we will seek to do so.

Ross Greer: Why have we not done so in this case? As far as I understand it—I am not a lawyer, but I have tested this particular area through policy a few times—the Scottish Government could require businesses to commit to paying at least the real living wage in order to qualify for the benefits that it will provide to businesses in the freeport areas, but it is not doing that.

Tom Arthur: There is a distinction between procurement, grants and property taxes—that is the important point. There is a distinction between what they are and how they are administered and what is possible. There are also issues with the measures in the programme that is being developed in relation to parity with what is available elsewhere in the UK.

On having responsibility for devolved taxes and non-domestic rates, I am keen to reflect on how we can use those levers and work in partnership with trade unions and businesses to incentivise fair work, but we have to make sure that, in considering that, we do not conflate it with distinct areas of policy such as procurement or giving grants.

Ross Greer: Finally, minister, is not it the case that this is a UK Government policy that, in terms of fundamental economic principles, the Scottish Government does not agree with? The UK Government was going to do it anyway, so is the Scottish Government just trying to make the best of the situation? It would perhaps be better to be honest and say that this would probably not be happening if the UK Government was not doing it anyway, and that you do not want it to happen, but are just trying to make the best of it.

Tom Arthur: We operate in a UK context, and we seek to engage constructively with the UK Government. The freeport model was brought forward by the UK Government, if I recall correctly, following the general election in 2019. We have sought to listen to the voices of business and other partners, including trade unions, and to engage constructively in development of the proposals.

We are now in a position in which we have managed to come to a joint approach with shared decision making. That reflects the fact that we have sought to engage constructively. If we continue to work in a constructive manner with the UK Government and the green freeport operators, we can seek to harness the opportunity to deliver positive economic outcomes for the green freeport sites and the wider Scottish economy, including by strengthening key strategic industries.

Ross Greer: I have plenty of other questions, convener, but it is probably time for other members to get a word in.

The Convener: Indeed.

Michael Marra (North East Scotland) (Lab): Minister, how important is a transparent application and assessment process to the strength of the bids?

Tom Arthur: It is incredibly important. A range of material has been published on the UK Government website, setting out various aspects of the criteria. Laura Duffy, do you want to go

through what has already been made available and what is forthcoming?

Laura Duffy: The bidding prospectus was published on 25 March 2022. There was a cross-Government assessment process for that, and a decision note setting out why the decision was made and the basis behind it was published shortly after the selected green freeports were announced. The publications that followed that were the guidance for the business case and the forms for the business case outline and the full business case.

We had a number of freedom of information requests on the content of the bids, and we released all the information that we could on all five bids. If I recall correctly, the main information that was not released was commercially sensitive information. We have been as transparent as possible with the process.

Michael Marra: That is useful detail. It is in stark contrast to the process that was followed by the Government for investment zones, on which Neil Gray said in response to a written question from me:

“The invitation to host an Investment Zone was not subject to a bidding or application process”.—[*Written Answers*, 20 July 2023; S6W-19604.]

Minister, you said that it was “incredibly important” to have a proper process. Why was that approach not followed for investment zones?

Tom Arthur: You must forgive me—I am here specifically to speak about green freeports. As I am not the lead minister on investment zones, I do not have the information in front of me. However, I would be more than happy to ask that a response be provided in writing to address any further points that you want to articulate on the matter.

Michael Marra: We are investigating the potential benefits and value for money for taxpayers of such approaches; as a committee, we also have a general interest in Government decision-making processes. It strikes me that a very different approach was taken for investment zones. No process was put in place. On the day that the investment zones were announced, Russel Griggs of South of Scotland Enterprise wrote that he was bitterly disappointed and that he was still awaiting the publication of the selection criteria. People find that confusing.

I will provide some context, and it would be useful to hear the minister’s reflections. My home city of Dundee has been awarded neither green freeport status nor an investment zone, despite being the fourth-largest city in the country. We have the most prestigious and high-achieving life sciences institution in the whole of the UK, we have an outstanding port and we have huge economic need, yet neither of those opportunities

has been delivered. Can the Government provide a justification for that?

Tom Arthur: The decisions that were taken on investment zones were a product of engagement between the Scottish Government and the UK Government. With regard to the decision-making process and criteria, while I seek to provide as much information as possible to the committee, I sincerely apologise: as I am not the lead minister in that area and it does not relate specifically to green freeports, I am not in a position to respond fully. However, I recognise the member’s interests as a committee member and as a regional representative, and I would be happy to respond in writing.

Michael Marra: In that case, I will ask about the generality of the situation. Is what has happened not an inevitable consequence of doing these things on a specific regional basis, rather than taking a national approach? You are here today to talk about a localised, regional approach to economic development, whereby the Government is making certain decisions about how to lift up certain areas. Are we not in a situation in which, essentially, the investment zones are just pork? Is this not just a case of pork-barrel politics, with the Scottish National Party and the Tories deciding to allocate the zones to areas of political priority? Does such an approach not open up that possibility?

Tom Arthur: It is important to recognise that place-based approaches to economic development are integral to a range of the work that is being progressed, from regional economic partnerships to community wealth building. I do not agree with the characterisation of the situation as an example of pork-barrel politics. I do not think that anyone could suggest that, from an SNP perspective, there was any political motivation to the decision in relation to Dundee. I do not think that that is a fair assessment to make.

I think that it is recognised that the Scottish Government has sought to work and engage constructively with the UK Government on initiatives that it has taken forward and with the areas involved. It is fair to say that parliamentarians of all parties regularly call for greater collaboration and partnership working. That is reflected in the fact that we have been willing to engage constructively with the UK Government on those measures, which were initially a UK Government initiative. We have not sought to be obstructive in any way; we have sought to engage to ensure that we can achieve the best outcome for people in Scotland.

Michael Marra: To be clear, minister, I am in favour of locally based regional economic development, but there must be transparency and criteria must be applied. Your Government has

two very different policies—one involves the criteria that you have set out today while the other completely lacks any criteria or process.

I do not want to labour the point any further, but it would be helpful if the minister and his colleagues could set out, in writing, the rationale for the distinctly different approaches to the two different policies. I would welcome that, and it would be useful in helping us to assess the general impact of the policies.

Michelle Thomson (Falkirk East) (SNP): To be fair, I recognise the challenges that the Government faces in the wider environment, and I look forward to hearing calls for greatly increased devolution in order to avoid such challenges in the future.

I consider Ross Greer's comments to be valid. Minister, you talked about maintaining parity. I took from that that you knowingly accept the considerable potential for tax avoidance that should feed into all of our bottom lines. Am I correct in that assessment?

Tom Arthur: No, we do not, which is why I referred to the general avoidance principles that Laura Parker touched on when she commented on that area. Today, we are considering the LBTT order, which seeks to incentivise development that would not otherwise have taken place—

Michelle Thomson: I am sorry to interrupt. I absolutely get that, and you have made it clear that certain brownfield sites would not otherwise be developed. I accept that point, but it is difficult to make it without being aware of the wider environment. I will again quote a figure that I dug out a couple of years ago: the estimated loss to UK gross domestic product because of money laundering is conservatively estimated to be £262 billion every year, and the National Crime Agency says that the figure could be £100 billion more.

To my mind, we should be very concerned about that, so my question goes beyond the general principles, which, frankly, are not working. What specific discussions have you had with the UK Government to establish how it will counter tax avoidance and tax evasion? Clear warnings from the European Union in 2018 led to the EU issuing a commentary and taking further action on freeports. What recent discussions have you had?

Tom Arthur: I will make some broader points in a moment. Laura Duffy can speak about our specific engagement with the UK Government on the design of the prospectus and bids and on money laundering and security issues.

Laura Duffy: We are aware of the reputation of previous freeports, which we do not want to see with green freeports in Scotland. Our bidding prospectus clearly sets out that green freeports

will be subject to strict conditions. Bidders will be required to adhere to the code of conduct for clean free trade zones, as set out by the Organisation for Economic Co-operation and Development, and to meet the obligations in the UK anti-money laundering regulations. Green freeports will not be a regulation-free zone; they will be required to meet the same regulations as in other parts of the country. They will not get a free pass from the requirements that generally apply to businesses.

Customs site operators will have to be authorised by HMRC, and green freeports will be required to keep a record of all businesses operating within their tax sites and to make that information available to law enforcement agencies. Those agencies will carry out checks on businesses and their owners before authorising them to operate.

Michelle Thomson: All of that is pretty standard, and having it all in place does not stop considerable money laundering and fraud—it is an epidemic—in the UK economy, overseen by the UK Government. I fully accept that most such powers are reserved, but Ross Greer made the important point that we have two choices—we can say, "That's not very good," or we can start to rattle the cage and use the powers that we have, which could absolutely disallow any offshore company or structure.

10:30

Another point that has a bearing is that Scottish limited partnerships are well known for money laundering—they were at the root of the bombing in Beirut, and money that was being funnelled through them nearly brought down the entire Moldovan economy. They are well known and well understood.

Scottish limited partnerships affect our global brand name. If you have not had discussions with the UK Government, I ask you to have them and then return to the committee to set out exactly what assurances you have had and where you dispute points. This is our global brand, which is why I care passionately about it.

Tom Arthur: I will ask for an update to be provided to the committee as the OBCs progress and green freeports come online in order to provide additional confidence that robust processes are in place.

I know that you will recognise from your work in this Parliament and at Westminster that much of what you touch on sits in the reserved domain. That should not be a barrier to us seeking to do all that we can, but we have to recognise where the limitations lie. Seeking to apply property taxes and transaction taxes, for example, in a way that they are not inherently designed to apply can lead to

unintended consequences and can work against the broader objective of ensuring parity with sites elsewhere in the UK, so that we remain competitive in the process.

On your specific request for an update, I will ask for that to be provided to the committee on the points that you and Mr Greer have raised.

Jamie Halcro Johnston (Highlands and Islands) (Con): Good morning to the minister and his colleagues. I make it clear that I was pleased to support the winning Cromarty Firth bid.

A number of the issues that I was looking to raise have been covered; I will address a couple of things that colleagues have raised. In response to the convener's questions, you talked about the role of infrastructure such as new schools, hospitals and housing, which will be vital to accommodate the new people and new jobs that we hope will come to freeport areas and will probably be vital to the success of freeports. You suggested that such infrastructure is a local government responsibility, and we know that local government is under severe financial pressure in delivering the services that it provides already. As a Government, how will you ensure that such services can be developed, given their importance to the project as a whole?

Tom Arthur: I referred to local government's statutory responsibilities under the planning system. When development will have an impact on infrastructure, the planning system has mechanisms to ensure that contributions are made, such as section 75 agreements. As the process develops and unfolds, and as we see the additional development that we want, there will be broader consideration when developments go through the planning process for approval, and the impact on infrastructure will be considered. It will be for local authorities, working in partnership, to determine as part of that process the appropriate mitigations and adaptations that are required and the additional infrastructure that needs to be in place.

Jamie Halcro Johnston: That is all fine. You talk about working in partnership, but with whom? Hospitals, schools and houses have to be built. If the money is not there to build them, how do they get built? How will you as a Government work with Highland Council, in the case of Cromarty Firth, to ensure that additional resources are available as you hope that they will be?

Tom Arthur: There is a range of avenues for providing resource. As I said, that can happen under the planning system, when there is justification in planning matters for resources to be accessed as part of a development that is taking place. There are public resources, such as the capital allocations to local government.

As always, we will continue to have dialogue with local government. More broadly, that has been taken to a new and strengthened level across Scotland following the Verity house agreement. Such discussions will continually take place. If particular areas of pressure are identified and we need to consider solutions that go beyond what an individual local authority or group of local authorities was capable of, we would have those discussions at that point, just as local authorities routinely raise a number of areas.

We recognise that what we are seeking with regard to the creation of jobs and the development of land presents a huge opportunity. We also recognise that significant economic development can be attended by a range of challenges, so we will continue to engage. We are not taking an approach of saying, "On you go," and leaving local government and the areas to it. We will continue to engage, and we will look to understand any challenges that emerge and identify solutions in partnership.

Jamie Halcro Johnston: Is there a specific vehicle for doing that? Obviously, some of the resources that will be needed further down the track will need to be delivered through the decisions that are being made now and the consultations that are being held now, whether those are on the structure that we have just talked about or infrastructure such as the A9, which we know is considerably behind schedule. Is there a specific group that is working on that?

Tom Arthur: I would point to our broader programme of infrastructure investment, which has been set out. The committee will recognise the challenges that we face with regard to our capital budget and the challenges of delivering projects due to cost inflation, which is an issue that is not unique to Scotland; it is having an impact right across the UK and in many countries. Therefore, there is that broader framework. Our capital spending will be kept under review with regard to timing and the phasing of what is feasible within the capital that is at our disposal and the cost of projects. Parliament is well versed in that from engaging with specific capital project issues.

With regard to the particular sites of the green freeports, clearly there will be interaction with broader projects such as the example that you cited of the A9. I have already touched on the point about specific local impacts and we will continue to have that dialogue and engagement to understand any issues as they emerge.

I should also note that, for each of the two sites, there is the seed capital funding that I referred to earlier, which will be available once the sites are active and online.

Jamie Halcro Johnston: On a similar point, there are some areas where you have indicated that you are looking for parity, largely, with the UK scheme, so that Scottish freeports are not at a disadvantage. What engagement are you having on the freeport projects—if, for example, there was a need to change the five-year transaction date? How is that engagement happening?

Tom Arthur: As has been touched on, we are in a situation where, subject to the order being passed, we hope that tax site designation would take place between HMT and HMRC in the near future, which would allow for the next stage. We continue to have active dialogue and engagement, and there is joint decision making between Scottish and UK ministers. Laura Duffy, do you want to add to that?

Laura Duffy: At official level, we meet the UK Government twice a week. We are delivering this as truly in partnership as we can. We jointly developed a prospectus and we have developed a process for assessing the business cases jointly. Green freeports are invited to the UK-wide senior responsible owner forum. We have very close engagement with the UK Government.

Jamie Halcro Johnston: Therefore, if there were movement on either side on, for example, a need to change the situation, that is where it would be brought up and taken forward.

Laura Duffy: Yes.

Tom Arthur: Yes, of course. As I said, there is continued close dialogue and engagement, which will inform any decisions, and earlier we recognised the approach that we have taken from the outset with regard to parity.

Jamie Halcro Johnston: Thanks. The convener, Liz Smith and others have spoken about the impact of displacement as well as the costs involved, such as the advertised cost of £5 million in terms of land and buildings transaction tax, and how that might be offset by increases in income tax take. How detailed will that information be on income tax? Will you be able to determine from local tax figures whether there is displacement? Will that be an opportunity to see where displacement is happening and its impact? How soon would we be able to see that?

Tom Arthur: Specifically on LBTT, as I referred to earlier and as one would expect, monitoring will be done by Revenue Scotland and data will be published. In addition, LBTT revenue can accrue following the end of the exemption period, given that development that takes place now can enable and facilitate future development. You could almost say that LBTT could wash its own face in that regard, before we consider the broader impact of tax.

The monitoring and engagement of each of the freeports will assist us in identifying the level and type of job creation and the type of economic activity that is taking place. Laura, do you want to add anything about the economic impact?

Laura Duffy: We are developing a monitoring and evaluation framework for the programme that will help us to get clear information, and we are working with the green freeports to ensure that they are clear on what the monitoring and evaluation requirements will be so that they are ready to give us the information that we are looking for. In that way, we can have a clear picture of the impacts of the programme across the piece.

Jamie Halcro Johnston: Will that operate on a Scotland-wide model, or will it look at, for example, displacement of jobs from the periphery of the freeports, such as within 100 miles or 50 miles?

Laura Duffy: We are looking at both aspects in the development of the framework.

Jamie Halcro Johnston: It will not necessarily be needed for a bit of time, but when do you expect the framework to be in place?

Laura Duffy: I do not have the planned end date to hand, but the work on the development of the framework is well under way.

The Convener: Thank you. That concludes the committee's questions.

Item 2 is formal consideration of the motion on the instrument. I invite the minister to move motion S6M-09584.

Motion moved,

That the Finance and Public Administration Committee recommends that the Land and Buildings Transaction Tax (Green Freeports Relief) (Scotland) Order 2023 [draft] be approved.—[*Tom Arthur*]

The Convener: Do any members wish to comment?

Ross Greer: As I said in questions to the minister, the economic fundamentals that underpin freeports are those of trickle-down economics, which is not something that the Scottish Government can subscribe to. There is no evidence base for saying that wider economic benefits are going to be felt as a result of developing freeports. In fact, the evidence base from freeports across the world shows that the companies that are involved in freeports certainly benefit but the wider communities around them do not. I recognise that most of what is involved in setting up the freeports is reserved, but there are levers within the Scottish Government's powers that have not been used, including to exclude any entity that is based in an offshore tax haven from accessing LBTT relief.

There is a lot of language around fair work, and I recognise the Scottish Government's commitment to fair work, but in this case it is just language. There are no binding commitments to ensure that the companies adhere to fair work principles. I am concerned about the long association that freeports have internationally, but particularly in Europe, with crime, particularly money laundering, smuggling and the exploitation of workers. The European Commission has highlighted that, and the European Parliament called for an end to the freeport experiment in Europe as a result of that. I do not see evidence that sufficient consideration has been given to the impact of that in the UK and, as Michelle Thomson said, the impact that that could have on Scotland's international brand.

I am also concerned about the potential for job displacement. We saw the evidence from the UK's last experiment with freeports in the 1980s that there was up to 40 per cent displacement, rather than new jobs being created. Given the position of the freeports in our economy, as a West Scotland MSP, I am concerned that the economy in the west of Scotland is already not in the same state as the economy in the east. We face significant depopulation issues and growth in wages is nothing like what it is on the east coast, and these developments will only exacerbate that.

I recognise that the Scottish Government is in a difficult position, because this policy is being driven by the UK Government, but devolution exists for the purpose of creating divergence where we believe that it is necessary. I do not think that the opportunity to do that has been taken. Tax breaks and deregulation are not a path to prosperity. Investment is a path to prosperity; working with rather than against trade unions is a path to prosperity. The Greens want to see profits reinvested in local communities, not squirrelled away in offshore tax havens, but I think that that will be the consequence of this so I am afraid that I cannot support the order.

10:45

John Mason: I have reservations about green freeports. I fear that—as has come out in the questioning—they will involve the displacement of jobs rather than the creation of new ones. Having said that, we are competing with England on some matters, so we are in a difficult position when it comes to supporting them, and my questioning has established that the amounts of money that are involved are relatively small. I am therefore happy to support the motion.

Michelle Thomson: I have indicated some of my concerns about the use of green freeports for money laundering and other nefarious activities. I will support the motion, with the proviso that I will

look for a strenuous querying of the UK Government over its pretty appalling record in stopping money laundering. I recognise, yet again, the constraints within which the Scottish Government must operate. That is a function of devolution.

Michael Marra: I share some of my colleagues' concerns—in particular, about the fantastical nature, to use your words, convener, of some of the numbers and, essentially, the public relations claims on some of this. My overall position aligns with the trade union colleagues we saw last week. In their view, there is insufficient engagement from the Government over some of the issues that Ross Greer has raised. However, recognising the fact that we are in a competitive regime, internationally and across the UK, and that our ports have to be competitive if they are going to attract business, I will, somewhat reluctantly, support the SSI at this stage.

The Government could do an awful lot better on exploring the options that are available to it and dealing with some of the questions that I have raised about transparency and decision making across its economic development prospectus, to make sure that we can have confidence in its decisions.

The Convener: I was quite keen to have a freeport at Hunterston, in my constituency, so I will certainly support the motion. The reason for that is primarily that, if we do not get the jobs and investment in Scotland, those will simply move to south of the border. Teesside would be a major threat to jobs in this part of Scotland if it were not for the fact that Leith is one of the green ports.

Engagement is important. We have to take on board what the unions also said, which is that the City of Edinburgh Council is not engaging with them. That is a Labour-led local authority. Other political parties as well as the Scottish Government have to think more about engagement with trade unions and others.

However, I will support the motion for the pragmatic economic reason that the alternative would be a drain of jobs and money to elsewhere in the UK.

Minister, do you want to sum up before we go to the question?

Tom Arthur: I am grateful for the committee's scrutiny and have no further comments.

The Convener: The question is, that motion S6M-09584 be agreed to. Are we agreed?

Members: No.

The Convener: There will be a division.

For

Gibson, Kenneth (Cunninghame North) (SNP)
 Halcro Johnston, Jamie (Highlands and Islands) (Con)
 Marra, Michael (North East Scotland) (Lab)
 Mason, John (Glasgow Shettleston) (SNP)
 Smith, Liz (Mid Scotland and Fife) (Con)
 Thomson, Michelle (Falkirk East) (SNP)

Against

Greer, Ross (West Scotland) (Green)

The Convener: The result of the division is: For 6, Against 1, Abstentions 0.

Motion agreed to,

That the Finance and Public Administration Committee recommends that the Land and Buildings Transaction Tax (Green Freeports Relief) (Scotland) Order 2023 [draft] be approved.

The Convener: I thank the minister and his colleagues for their evidence. We will publish in due course a short report to the Parliament setting out our decision on the draft order.

I suspend the meeting briefly to allow for a change of witnesses.

10:48

Meeting suspended.

10:53

On resuming—

Public Service Reform Programme

The Convener: The next item on our agenda is to take evidence in relation to the committee's inquiry into the Scottish Government's public service reform programme. This session continues the evidence taking that we started before the summer. I welcome David Moxham, deputy general secretary of the Scottish Trades Union Congress. David and I served on Glasgow City Council together a quarter of a century ago.

I intend to allow up to an hour for the session. We have your written submission, David, so we move straight to questions. As well as questions on reform, members may take the opportunity to ask Mr Moxham any questions on the STUC's pre-budget 2024-25 submission, which has also been circulated with the meeting papers.

I will kick us off on the reform agenda. The Deputy First Minister has said:

"it is for individual public bodies to determine locally the target operating model for their workforces and to ensure workforce plans and projections are affordable in 2023-24 and in the medium term".

Does the STUC agree or disagree with that?

Dave Moxham (Scottish Trades Union Congress): We generally agree with the contention that public service bodies—particularly those that have a sound democratic basis, such as local authorities—should be the prime leaders and drivers of decisions on service delivery generally and workforce planning, too. Obviously, we would add that decent and effective collaboration with trade unions and workers more generally is vital for that. Our difficulty is in relation to the spending envelopes that are attached to those decisions.

To digress into a slightly more general point, one of the difficulties that we have encountered over the years when considering public service reform is that it tends to raise its head at points where budgets are at their tightest, which, in many ways, is the least good time to look at public service reform. I was involved in the process around the Christie commission, and I still attach myself to many of the principles that the Christie commission established. However, the findings of the Christie commission dropped in 2011, and three or four years of tight austerity in terms of spending followed. Our concern is that we seem to be at one of those junctures again.

To return to your point, convener, the answer is yes—but what is the spending envelope and how much freedom do those public bodies have to

make genuine decisions about future service delivery?

The Convener: You touched on Christie. One of the issues that the committee has deliberated over many years has been the preventative spend agenda. How important is preventative spend in relation to reform of public services?

Dave Moxham: It is absolutely vital. Over the past decade, we have seen some decent examples of it although, in my view, there have been too few. We are supportive of some of the generalised Government fiscal decisions that have sought to improve the conditions of families, particularly low-paid families and those in poverty.

I will make two points, the first of which is about lag time. The effects of the investments that Government makes in prevention are rarely seen in service delivery terms for many years. Obviously, that can differ from discipline to discipline, but we sometimes fall into the trap of thinking that B follows A, whereas there is normally a B, a C, a D and an E before we get to the F of some of the advantages that we derive in relation to service delivery and overall health and social outcomes.

The second point is that, sometimes, the preventative role in jobs is not paid enough attention to. For example, is the role of a social worker a preventative job or an end-of-the-road safety job? The answer is both, and the more social workers and investment in social work that we have, the more that social workers are able to look at the preventative aspects of their job. Sometimes, we tend to take a bit of a blunt tool approach and say that there is a bunch of preventative jobs and a bunch of acute jobs. In reality, a large number of jobs, particularly in local authorities, exist somewhere in the middle of that spectrum.

The Convener: At a time of static budgets, how difficult is it to disinvest in programmes or services in the public sector that are less effective, in order to invest in more effective services?

Dave Moxham: I will return to my earlier point with bells on—it is very, very difficult. That is partly because it is a bad planning moment. A departmental head has some medium to long-term reform objectives, but they also have a budget envelope. Are they going to be progressive and imaginative in their decision-making process? Their workers fear that they might lose their jobs or their colleagues, including through one of the many methods that were used over the 2010s to diminish local government and other workforces. Is that the right environment? The answer is no. I do not have all the answers to that problem. We have two or three major challenges in public service delivery that no one can wave a wand

over, but it is not the right time to do that if you want to achieve the long-term and sustainable change that we all agree that we need.

11:00

The Convener: One of the conclusions that came from the committee's meeting on 23 May was that efficiencies made as part of managing budgets are not a genuine reform. I am sure that you would agree with that. What role do efficiencies such as sharing data or making use of artificial intelligence and digital technologies play?

Dave Moxham: They have a role. I would not claim to be an expert. If you were to ask me to talk about a particular departmental change involving technology and to say whether that was positive or negative, I would find it difficult to give a specific answer, but technology clearly has a role. There is no area of private, public or voluntary sector life that is untouched by some of the positive potential of digitalisation and other technological change.

Public service suffers from the horrible-sounding Baumol's cost disease. It is generally harder to make person-based services more efficient through technology than it is to do that for non-person-based services. That does not affect just the public sector; it affects the retail sector. We have seen difficulties for the high street because of alternative forms of purchase, and supermarkets have seen a change in the balance between staff and technology. Even the private sector is trying to get to grips with the fact that it is harder to make effective productivity gains through technology in person-based services than in other areas of the economy.

The Convener: I turn to issues of pay and taxation. It has been said that the 3.5 per cent pay rise suggested in the public sector pay strategy for 2023-24 is not remotely sustainable. What are the average pay settlements in the public sector now? The details that we have been provided with come from November 2022, but the way that things have been going in recent months puts us in a very unstable situation. Inflation has declined, but where are we with public sector pay in Scotland?

Dave Moxham: All our figures are based on existing or settled pay deals and on existing, rather than projected, levels of inflation, which I agree seems likely, in this uncertain world, to reduce.

You will see from my report that the headline is that, in almost all areas except those where we have managed to negotiate particularly strong back-end deals for some lower-paid workers, pay rises continue to be below the rate of inflation. That is part of a decade-long trend for both public and private sector workers, but the public sector has been particularly badly hit. When we say that

that is not sustainable, we mean that it is not sustainable for service delivery or for the budgets of many of the key workers that we represent. Frankly, it is not sustainable because they are not going to put up with it and will take industrial action if they have to, as we have seen.

The Convener: Scotland has an ageing population and declining workforce and the Scottish Fiscal Commission has said, based on current projections, that the funding gap is likely to remain for years. In a paper submitted last year, you suggested that the Scottish Government should look to increase tax revenues by around £3.3 billion, which is hugely significant if we think of Scotland's current tax burden. For example, someone earning £43,662 a year would pay 42 per cent income tax and 12 per cent national insurance and a lot of the money that they have left would probably go on fuel duty, excise duty, value-added tax and so on.

What would be the impact of raising that sum? I realise that it would not all be done in one go, but what would be the impact on behavioural change? The Scottish Fiscal Commission has expressed concern that increasing taxation to a certain degree results in behavioural change whereby people do not work as hard or move somewhere else.

I will give you an example. Under a previous Conservative Government, Chancellor Osborne limited pension pots to £1 million. As a result, a lot of doctors, including general practitioners and consultants, realised that they would end up paying more in tax than they would gain, so they decided that they would retire early. That was a detrimental behavioural change, and the UK Government is now looking to reverse that policy—and has reversed it, to a degree.

What would be the behavioural change in this case? Last week, we heard that there are only 18,000 top-rate taxpayers in Scotland.

Dave Moxham: There is quite a lot in there.

The Convener: There is indeed, so I will give you plenty of time to answer.

Dave Moxham: I will be very understanding if you or another member needs to come back on some of the detail.

You mentioned a top-line figure of £3.3 billion, but we are not proposing that that could be achievable or possible in any one year.

The Convener: I appreciate that.

Dave Moxham: That is based on a view, and there are some specific examples of how the policy might be implemented. There is a general question of how we need to shift the tax burden—across the UK and across the world, although we

are talking about Scotland here—with more from unearned asset or property-based income and less from wages. A significant proportion of the £3.3 billion is based on proposals around wealth taxes and property taxes.

The proposals involve fairly liberal estimates of tax avoidance and tax evasion. Tax is harder to avoid on fixed assets, although it is not impossible to do that. It is therefore important, within the modelling, to reflect the fact that there will be some overspill in loss of income. Generally speaking, however, one reason for our proposed shift from income to assets over time is to deal with the issue that you have raised.

On income, everyone knows about the Laffer curve, but the question is how big we think the behavioural change is according to the Laffer curve. Some people seem to think that we could turn things around tomorrow, and that, taking our proposal to increase tax on people earning more than £75,000, for instance, everybody would disappear. The truth is that that is not the case, and that is partly because the jobs would stay here. Someone does not suddenly decide to start practising law in England if they have been a Scottish lawyer for the past 30 years. Someone whose child has a decent education and health service and a good way of life in Edinburgh will probably not jump the border just because they are asked to pay a few hundred quid more.

We recognise, however, that there are limitations, and we are fast reaching the limits of how we can use income alone as a basis to get fairer funding for our public services. You will see that the balance in our recommendations shows that less than £1 billion can be raised through income tax measures, with a far higher number being raised in the medium to long term—we are probably talking about a three or four-year horizon at best—through a more fundamental shift in how we tax in Scotland.

The Convener: Behavioural change came up a lot last year. The Scottish Fiscal Commission said that, of the £30 million raised from top-rate payers, 90 per cent would be lost to behavioural change. The commission said that it was not about folk movin fae Edinburgh to Newcastle, for instance; it was about somebody who had been working five days a week saying that they will now work only four days a week, because they pay too much tax. That impacts on productivity and so on.

We all want there to be the optimum level of expenditure in our public services. The difficulty with the fact that both the main UK parties have said that they will not have a wealth tax and will not increase top-rate tax is that it leaves Scotland a wee bit exposed, within the United Kingdom, not so much for retaining people but for attracting

people who might want to invest here or come and live here.

I imagine that you are right that not many people want to move—I certainly wouldnae want to move south of the border, whatever the tax rate was—but other folk might think, “Do you know what? I don’t know if I want to go there,” because of the direction of travel.

Dave Moxham: Council tax in Scotland is significantly lower than council tax in the rest of the UK as a consequence of year-on-year council tax freezes—whatever view one takes on that. If we include that, we have to reach the very highest earners to show a massive differential between Scotland and the UK. We have not seen evidence of such migration. It undoubtedly happens at the edges, but the Scottish Government and this Parliament have four or five much more significant levers to use to continue to attract investment and encourage people to live here. That is down to having decent services and a skilled and competent workforce that people want to invest in.

I concede that there are limits and that we cannot go much further before the relative benefits of raising income taxes are undermined by what we all accept is some form of slippage effect, but we can go a bit further now and we desperately need to do so. In the medium term, we need much more fundamental reform. In case no one asks me about this, I make the point that it is absolutely reprehensible that, in 2023, we are not undergoing a council tax revaluation—we should have done it 10 years ago—so that we have a reasonable basis on which we can begin to make the changes that we need to ensure that property is proportionally taxed and that local wealth taxes are a possibility.

The Convener: To be blunt, that is a pragmatic thing. People might not talk about it publicly, but Conservative, Labour and Scottish National Party Administrations have not done a revaluation because of loss aversion. The people who are better off because of revaluation will shrug their shoulders, but the people who are worse off will hate you and not vote for you—it is as simple as that, to be perfectly honest. Perhaps people should be more honest about that. There is strong opposition in the Parliament to the Scottish Government’s council tax proposals, and committee members have already spoken out against them.

Your submission talks about

“Exploring every avenue to increase tax”.

Surely that sends a signal to people who feel that, with 14 interest rate rises in less than two years and with inflation hitting not just the public sector but the private sector, maybe the time is not right to do that.

Dave Moxham: It is a pretty horrible time to have to raise tax. No one particularly suggests that, at times of relative economic downturn, overall taxation should increase, although it can increase according to people’s ability to pay.

I am not sure what our alternative is. Members will have heard evidence that particular areas of public service, such as national health service waiting lists or local government services, are in crisis. You will also have heard evidence—it barely bears repeating—that, because of demography, the balance between the economy and the services that need to be provided ain’t looking good for Scotland. It would be nice for the Scottish Government to be empowered to do some things about that, which it is not.

This is a crisis point. We say with no pleasure whatsoever—particularly to people who have an above-average income but who are hardly wealthy—that people should pay more taxes, but we have proposed that they should. It is not great fun to go on to a picket line and explain to teachers that we want to fund their wage increase by introducing tax measures under which many of them would lose a significant proportion of that increase. We are not universally popular in our movement for coming to those conclusions but, given the other evidence that we are hearing about local government funding and the range of services that are in crisis, what are the alternatives?

Over the past couple of weeks and months, I have been spending a lot of time supporting firefighters who are completely up in arms about the cuts to services—which, incidentally, they were promised would not happen when the single service was introduced. I have to say to some of those firefighters, some—not all—of whom earn more than £40,000 a year, that some of my proposals would cost them money. It is about hard choices. We are in difficult times. What else are we going to do?

11:15

The Convener: One of the issues is that the United Kingdom’s standard of living is much the same as it was in 2003. We have been left behind by a lot of other countries. We have obviously had a financial crisis, with austerity, the pandemic and so on. Is economic growth not the answer? What does the STUC propose to stimulate economic growth so that the cake is bigger, which will of course generate additional tax revenues?

Dave Moxham: The first thing that we would say is that we do not, as some people do, make a distinction between economic growth and the overall contribution to gross national product that public services provide. They do that generally, in

the sense that services are provided, albeit that they are paid for through tax income in the form of taxes paid through people's wages. That is all part of our economy. There is nothing wrong with growing the economy by growing public services.

An awful lot of those public services are the infrastructure that is required for the private sector in the economy to grow. If you do not have enough planners or people in licensing, or if your physical infrastructure is not operating well, businesses will pay.

We of course support sustainable economic growth. Again, it is not a straightforward question, but it seems to us that it is about investment in the green economy—in areas of new technology but also in improving our infrastructure. We support a national programme of retrofitting similar to the one that was embarked upon in the 1970s when we converted on to North Sea gas, which provided a massive boost for the economy. We can think of public and private ways to increase the economy; we do not see doing so as public versus private sector.

The Convener: I have one last question on the issue of the green economy, which you just touched on.

You said that a £13 billion green stimulus package could create 150,000 jobs in Scotland and suggested that there is a pressing need for the Scottish Government to maximise the impact of its spending priorities. Labour in the UK has said that it can no longer proceed with its £28 billion green prosperity plan because of affordability. How can Scotland, with 8.2 per cent of the UK's population, afford to do something as ambitious as a £13 billion stimulus package?

Dave Moxham: It probably could not, under existing borrowing and capital spending limits. That was our top-level, in the middle of the pandemic, two-year, this could really make a revolutionary difference kind of figure. You can also see from that report that we produced a subsequent figure that showed the spectrum of investment decisions, all the way from where we currently are—which is, frankly, failure to produce jobs out of the renewable economy—through to better outcomes. I am not going to sit here and say that the finance minister can find £6 million in subsequent years to make that investment.

I take the opportunity to say that we strongly oppose the change in Labour Party policy—we hope that it will be UK Government policy—when it comes to those levels of investment. We foresee, and will continue to agitate for, a new Government at a UK level that is prepared to make those investments and to work with the Scottish Parliament and Government up here to discuss how the proportion of that investment would best

be deployed in Scotland. I am not going to defend that policy change from the Labour Party.

The Convener: I will open it out to colleagues. The first person to ask questions will be our deputy convener, Michael Marra.

Michael Marra: Could you outline why the STUC's submission is critical of the resource spending review that was previously published by the Government?

Dave Moxham: Fundamentally, because it identified public spending as a standalone item. For example, if I look at the revenue that is spent on public services and the income that is derived from taxation, I also want to look at things such as business support and the small business bonus scheme. I think that some things were left aside. The Government's approach was: "Well, we are obviously going to continue to spend £300 million plus on the small business bonus scheme." However, for us, that should have been reviewed in the round. We were also critical because the headline figure foresaw a cut in the public sector workforce, which we do not support. I know that that position has been slightly nuanced since then. Given our view that hard decisions need to be made about resource, relief and income, and that some areas of government—local government in particular—have, in our view, been historically underfunded, we were unlikely to be super positive about it.

Michael Marra: The permanent secretary gave evidence to the committee on 16 May. He told us that it was not clear to him what the status of the resource spending review was within Government. At that time, the new First Minister had not given him any kind of direction. Do you understand what the current status of the resource spending review is?

Dave Moxham: Not really. We have heard suggestions that some elements of it, including the unfortunate quantification of the number of jobs that needed to be cut from the public sector, have been nuanced. However, we are not enormously sure. I think that it is reasonable to concede that a change of First Minister and Cabinet would presage some alterations to policy. Arguably, we have seen that in other areas, such as the Scottish national care service. The past two months have, as always, been a politically quiet period. I would not necessarily say that our uncertainty about the status of the resource spending review is a final and massive criticism of it. However, in the next couple of months and running up to the next budget, it would be nice to have a much clearer idea of what the Government's intention is.

Michael Marra: That is a fair point. The permanent secretary raised the issue of capacity and the ability of the civil service to be able to

deliver plans. For instance, within the first two years of a Labour government, Labour is committed to building towards £28 billion of investments in green technology across the UK. We have to be in a position as a country to develop those plans. Do you have concerns about our capacity as a country to meet the aspiration of a new government to make those investments?

Dave Moxham: That is a good point. I hope that it is okay for me to digress into another area so that I can illustrate the point. As I am sure that members of the Parliament are aware, we are keen on the development of municipal bus models. If we said yes to that today, it would probably be five or six years before such a thing could be achieved. One of the major issues with that would be whether we had the capacity to develop it. We have often found that with other areas, such as procurement reform. There have been the best intentions to use public spending through public bodies to its best effect, but we have not had the capacity within local bodies or the procurement expertise to begin to build the new model.

I will return to my original point about the capacity issue within local authorities and the civil service, and the capability of the Government to do it for itself, where possible. We have been critical of that where the alternative is to bring in big public sector reform bodies. I will not name any of them, but I think that we know which ones we are talking about. That returns me to the point that, if you are going to do public sector reform, you have to get your ducks in a row and get your capacity and vision strong enough to be able to deliver it before you start making cuts in other areas.

John Mason: Mr Moxham, you said earlier on that you favour reform being at a more local level. If I understood you correctly, I tend to agree with that. However, it has been suggested to us that there is sometimes a need for a central drive. For example, the police and fire services would never have reorganised in the way that they did—for good or bad—if it had not been for a central drive. How much should we leave public sector reform to the individual organisations, and how much should Government or the Parliament drive it?

Dave Moxham: That is quite a general question, and it is difficult not to answer it simply by saying that the principle of subsidiarity is, obviously, the founding principle of that, so, from our point of view, the burden of proof, so to speak, for non-local solutions should be on central Government. That burden of proof may be provided in given circumstances. I do not think that anybody would argue for the further break-up of health boards, for instance. Although this is not problem free—far from it—I think that most people

would accept that significant national priorities and outcomes and significant strategies must be adopted and driven by Government. However, my principle would be that it is down to central Government to demonstrate why something would not be delivered better locally.

John Mason: It has been suggested to us that there are too many public bodies. Perhaps several overlap with each other in what they do.

Dave Moxham: Historically, we have been critical—most people remember this—of the creation of quangos and non-departmental public bodies that do not have the prerequisite levels of accountability, and we have been in favour, wherever possible, of maintaining democratic delivery and even of strengthening that in some cases where there is local government or local authority councillor representation on NDPBs and other local boards.

The question is quite a general one, and I am sure that the workforce in some of the NDPBs, not to mention the managers, would have localised observations on how one might improve the landscape. As I have said, our general position is that things should be as local and democratic as possible.

John Mason: I largely agree with that.

A specific issue that has come up to the committee recently has been the number of commissioners in Scotland. There is a commissioner for children and a commissioner for human rights, and a commissioner for disabled people is proposed. There is a wide range of commissioners. Do you have a particular view on them? Some people think that they are a bit undemocratic and are not answerable to anyone.

Dave Moxham: Again, I am slightly hesitant to answer that. I was not particularly expecting to have to consider that issue.

I think that, where Government has priorities that are new and national and require particular attention, there is undoubtedly some value in the creation of posts for people who are specifically tasked with looking at agency delivery in a particular area—whether for a finite term or a longer term—bringing things together, and informing Government policy. I do not think that everything should have a commission. There should be a large consensus in the Parliament and among the wider population that a particular issue requires a particular focus for a particular period of time. Most of those things should not be for ever.

John Mason: I appreciate your comments. That is something that we are currently looking at. I realise that you did not anticipate the question, so asking it was maybe a little unfair.

It is clear that one of the roles that you and your colleagues have is to defend existing jobs. However, in looking at reform, I suppose that I would like to see more workers on the front line and fewer sitting behind desks. Are you open to that kind of movement?

11:30

Dave Moxham: We are open to it. I often smile because I spent a long time in the early 2010s talking about the distinction between front and back-office staff, shared services and so on, and we felt that many of those distinctions were illusory. You can look at the payroll function of a public service body and the front-line delivery and say that you can see a clear distinction, but often the distinction is far more blurred.

The answer to your question is, yes, but how—and how will that be organised? One of our concerns is that some public service reform initiatives tend to chop away parts of a function under the illusion that that makes the service more efficient, but it actually reduces the key performance indicators and the main KPI becomes whether you can you shift that job on to somebody else. We have all experienced getting an automated service on the phone when the thing that they seem to be best at is telling you that it is somebody else's job. That is normally because they have been told to shift a whole range of inquiries and problems into somebody else's lap. That looks very efficient to that small department but it does not look efficient if you look at the whole of public service delivery.

One of my concerns is that we need as many people as possible in public service who are qualified and paid to be problem solvers. We have heard an awful lot of chat over the years about following people's journey through service provision, from point A to point B and point C, and ensuring that that public service journey is strong. Sometimes, when you split the so-called back-office function from the front-office function, you reduce the number of people in the service who are problem solvers and able to take people along a slightly longer part of that journey. That is a very long way of saying, yes, but with a but at the end.

John Mason: That is a fair answer. Thank you. The committee has received a mixture of responses. One of the things that witnesses have done is looked back at the Covid pandemic and said that what happened then might be a good model for going forward. Others have said that that might be a bad model. Some of the key themes were that, on the positive side, decisions were made more quickly and some of the bureaucratic systems were chopped a bit but that, on the bad side, there was less consultation before decisions were made. Again, it is a wide

question, but generally, did good things happen that we could take forward?

Dave Moxham: Some good things happened, which were probably amplifications of things that already happened daily but which we do not see—the day-to-day engagement with different parts of the public service in order to deliver. We have long advocated for what we describe as public service networks, which look at how you strengthen the formal but sometimes informal co-operation between different areas of the public service to optimise local delivery. You use the fact that people often attend the same incidents or are part of the same review panel for social work outcomes and you build upon that. By the nature of geography and the need for immediacy, we saw some good examples of people using some of the informal and more formal networks effectively, decisively and dynamically.

Would I build out of that a suggestion that we need less consultation? I would probably say no. It is an important plank of the Christie reforms that service users continue to be consulted on a high-level basis about the services that are delivered. Workers need to be consulted and not just directed, but there are undoubtedly some dynamic examples of people rolling up their sleeves, building on existing relationships and delivering very effectively in communities.

John Mason: Thanks. That is helpful. I have a final question about point 5 in your submission. You refer to the 3.5 per cent pay increase that the convener mentioned and say that, if the Scottish Government does not reconsider that figure,

“real wages in Scotland are likely to fall further behind the UK.”

Is it your suggestion that, in Scotland, wages across the public sector or elsewhere are behind those in the UK?

Dave Moxham: We are talking about a fall, rather than an absolute level. As I recall—and I will get back to you with a correction if I am wrong—the figures were based on 2022 figures for relative wage growth and relative wage decreases and were compared across the nations and regions of the UK.

John Mason: In some sectors, Scottish workers are paid more than their equivalents in other parts of the UK.

Dave Moxham: The question is whether we are comparing a fall or comparing absolute levels. The recent fall has been more acute in Scotland than across the UK, which should not be taken as a suggestion that we think that the public sector workforce, or any part of the workforce as a whole, is paid less in Scotland than across the UK.

John Mason: That is helpful; thank you.

Ross Greer: First, I would like some clarification. Regarding your income tax proposals, am I right in understanding that, beyond threshold freezes, you are not proposing any changes to the starter, basic and intermediate rates, and that you are only proposing the new £40,000 threshold for whatever the new higher rate would be called, without any change to the lower thresholds?

Dave Moxham: That is correct.

Ross Greer: Thank you. Something that the committee has discussed quite a lot recently is the challenge that the convener pointed out, which is the financial gap that the SFC has identified. Even if we were to have substantial tax rises, such as those that you, and even my party, have proposed, that would mitigate or prevent potential cuts in public services, rather than expanding those services.

Do you have any concerns about public consent for that? Polls have consistently shown that people in Scotland, including those who are on higher incomes, are willing to pay more tax if that results in better, or more, services. If we embarked on tax rises in the next few years, we would simply be preventing cuts and it is hard for people to identify something that they have not lost, as opposed to something that they have gained. How would you manage public consent around that?

Dave Moxham: That is really hard to manage. Many people find themselves in difficult economic conditions. You can earn a reasonable amount of money but still have a set budget and things to do and still see yourself losing some things, even if those are things that are not available to other members of the population. It is an incredibly difficult discussion to have.

The convener made a point about it never being politically popular to do things with tax, which is absolutely true. Without being overly heroic about it, I think it is incumbent upon the parties in the Parliament to have a discussion about tax and services that recognises some of the fundamentals. It is a fundamental that, in 10 years' time, we will be spending a higher proportion of our income on public services than we do now. That is a fact that no one here would dispute, so we should all say it together. I think that most people think that the council tax system is bust and that it is frankly ridiculous that we are still basing our system on a 1991 review: everyone believes that.

If we can say at least some things together, we could begin to make tax rises more palatable. I agree with the convener. I would not want to be the one holding that particular stick at any point, so we should act collectively to say that we all genuinely recognise that there is a really significant problem and that we need to find some

sort of starting point. That means that the conversation that I have to have with my members and that you have to have with your electors would at least be based upon the genuine recognition of a shared problem.

Ross Greer: I absolutely agree that there is a need for greater cross-party consensus on that and I am always happy to speak to cross-party colleagues about tax policy.

However, there is an understandable public cynicism about politicians. If my party, or the Scottish National Party, made a real push with an information campaign to sell people the public services that already exist, people would understandably point to NHS waiting times or say that we are just saying that because we want their votes at the next election. Much as I think that we should still do that, my question for you is about the role of the trade union movement in getting a buy in from wider society.

The STUC has more than 500,000 members, but we have a working-age population of about 4 million. What role can the trade union movement play in getting wider societal buy-in, or not even buy-in but just recognition of the financial reality right now?

Dave Moxham: We spend a lot of time trying to get ourselves into the media and we have been quite successful at that. One of our priority campaigns for this year is that we want to tax quite a lot of people more. We have been very public about that; our members know that and the general public know that. We will continue to make the argument for that and we will continue to link it to not only the welfare of the members that we represent, but the pride in the services that they deliver.

Our other priority campaign is the national care service, which—I think everybody recognises—presents an organisational issue and a funding issue.

We have been right up there on those issues. We have not gone to Government and other bodies—as, perhaps, we have done in the past—and said that we need a certain amount extra for public services, or that it is simply down to them to bear the responsibility for the political debate about how that happens. We have offered an alternative; it might not be popular and all aspects might not be deliverable, but we can take some comfort from the fact that we are not avoiding the difficult questions about where the money comes from.

Ross Greer: The STUC deserves commendation for that. Other organisations, bodies and representative groups come to the committee every single year wanting more money, but they are unwilling to say where it should come

from or, indeed, they say that they want more public spending but they do not want tax rises—some even want tax cuts.

My final question is about the public sector estate. The union movement has been a champion of flexible working, remote working and working conditions that suit the needs of workers. Post-pandemic, that genie is not going back into the bottle, and that is true in the public sector in particular. However, that has resulted in a number of buildings that are either owned or leased by public sector organisations being largely empty or certainly significantly underoccupied. Does the STUC recognise that that is inefficient and not a good use of public money, and that therefore there needs to be reform in the public sector estate?

That should be done not simply as a cost-saving exercise, in the way that it was off the back of 2010 austerity, but in recognition of the fact that we no longer work in an environment where everybody is in the same office from Monday to Friday, nine to five.

Dave Moxham: That is entirely sensible. There will be examples where I would possibly disagree with myself about that, but broadly speaking, empty buildings are a bad idea—particularly heating them. What their use becomes is the issue. If there is more space than we need to house public sector staff, there is also probably more space than we need for office workers and people who are in the private sector, because working from home is a general trend, so future use is important.

I have been critical of some of the work that local authorities have done. Glasgow City Council has done some work as it looks to begin to reimagine what Glasgow city centre will look like in terms of its balance between dwellings and commercial properties. That is the kind of thing that has to be looked at. We might not agree with every single one of the outcomes, but that is not really the point; the point is that significant repurposing will be going on, and that has implications for the green economy and what we do in relation to infrastructure, travel to work time and various other things.

We are not going to sit here and say that we should let Glasgow be full of empty buildings if we can think of a good social purpose for them, but it is important to recognise that the market is challenging just now for the old method of simply selling the buildings on to the private sector for more office accommodation.

Liz Smith: I completely agree with you that any reform of council tax would first require a revaluation, which is long overdue.

I want to ask a few questions about your specific proposal for replacing council tax—what you call a

“Proportional Property Tax”. Can you be very specific about how that would work?

11:45

Dave Moxham: Yes. The first thing to say is that we have quite a range of recommendations in our tax paper; however, although it is definitely more than illustrative, we are not stating just now that we have come up with an every-dot-and-comma system for replacing council tax. There would be a certain arrogance in that, given the fact that everybody has failed to come up with a satisfactory scheme for generations.

Obviously, it would require revaluation, and we give illustrative examples of the percentage of that value that would essentially become the overall council tax. Let us say that I owned—and I wish that I did—a property valued at half a million pounds. If, say, 1 per cent were chosen as the figure—although it need not be; the figure could be 0.6 or 0.8 per cent—that would be what would come up in my council tax bill. If the figure were 1 per cent and my property were to be valued at £500,000, my council tax bill would be £5,000 a year.

Liz Smith: If that happened, would you also be in favour of the wealth tax that you have suggested in your paper?

Dave Moxham: It would somewhat complicate the wealth tax, in that a property is a component part of a bigger basket. We would therefore not necessarily suggest bringing the two things in, as it would mean somebody being essentially double taxed on the value of their property. We would want to avoid the double taxation of property.

Liz Smith: That is very important. It would be double taxation, and you would be in very considerable danger of not only creating very considerable bills for some people who might not actually be at the top end of the scale but making things very complex administratively. As you know, the Parliament does not have the power to tax bodies on a non-income basis—that is, we cannot have a national wealth tax—but I think that the wealth tax that you have suggested in your paper is to be administered locally.

Dave Moxham: That is correct.

Liz Smith: Would that not make things more complex, too?

Dave Moxham: To be quite honest, I think it unlikely that we will come up with a tax system that is not complicated and that does not have a whole range of administrative challenges. The current system absolutely does, and there is no property-based scheme, including the one that we currently have, that does not need a fairly active

compensation scheme for the people whom you are talking about.

Liz Smith: The other issue, which you come to later in your tax paper, is business tax. The key issue for the Scottish economy just now is getting the right balance between the tax take or revenue, which you have suggested can be increased in various ways—I might disagree with you on some of that—and behavioural change, a really quite significant example of which the convener has pointed out. It is all about trying to project what would happen in various scenarios and I am keen to know what the STUC would pick out as a priority basis in that respect.

Dave Moxham: Do you mean a priority basis for a behavioural tax?

Liz Smith: I am just not entirely clear whether, by making recommendations on changes to tax, you want to change taxation rates or you want specific structural changes to the overall tax basis. That is a key question, and a question that the Scottish Fiscal Commission is asking, too.

Dave Moxham: We want structural changes to the way in which tax is levied, because we want more of it to be based on immovable assets instead of income. I would not go as far as that famous half-quote from Peter Mandelson, but I think that one can be more relaxed about people earning high amounts of income if they are at least paying effective tax on their property and assets. That is undoubtedly a structural change, because it suggests that we do what we can—recognising the limitations on this Parliament; obviously, we would be advocating this at UK level, too—to change the structural emphasis from income to asset when we tax people.

Liz Smith: I come back to the point that we want a much more sustainable future for the Scottish economy in terms of the revenue that we bring in, in line with necessary increased expenditure, particularly on things such as health and social care and social security. Obviously, that tax revenue is absolutely vital to the future. If we are going to have increased taxation on certain members of the population, as well as structural changes, we have to be clear that what we are suggesting will not provide the disincentives of the sort that the convener set out. It is not necessarily that people are going to move elsewhere, but that they might think, “Well, this isn’t very good for us—we don’t like this extra burden of taxation, so we won’t work quite as much,” which would be a considerable problem for the economy. Also, from a business angle, people think, “Do we want a higher tax burden in Scotland? Probably not.” Do you accept that that is a view that, certainly, business and industry hold?

Dave Moxham: We accept that and, for instance, the wealth tax proposals in our recommendations model for some of that to happen. However, we argue that the overall benefit—which would be funding not just for public services but, potentially, for other investments that are available to business, as well as improvements in their workforce—would provide, on balance, a more positive environment for business to operate in. There are plenty of countries with significantly higher taxes, both on individuals and on business, which have proved that, when it comes to investment opportunities, it really is the high road rather than the low road that matters.

Liz Smith: Do you accept that some of those countries have a better quality of public service delivery than we currently do in Scotland?

Dave Moxham: Absolutely—and particularly the countries where universalism is more widespread and there is a social contract through which people are happy to pay relatively high levels of taxation, because the quality of services is higher and the cost of things such as childcare is significantly lower. There is a very strong case to be made that that is better for the economy as well as better for the people.

Liz Smith: Thank you.

The Convener: That appears to have concluded the questions from the committee, but I will just point out that, ironically, the council tax was meant to be a temporary fix when it came in more than 30 years ago. One of the difficulties that we have not touched on is that, if we did have a new system, whatever that system would be, the number of appeals would run into the hundreds of thousands, because that is what happened when the council tax came in, as I remember from my days on Glasgow City Council.

David, do you want to make any points that we have not touched on?

Dave Moxham: I will simply emphasise one issue. I am a member of the Scottish Government’s new tax advisory group, so I recognise that my organisation and I will have more than one opportunity to push the issue forward. I do not think that I am giving any secrets away when I say that, in the first meeting of that group, one of the things that we discussed was that there are three broad areas of taxation and income raising that we can think about. There are things that can be done now, which need to be done for the next budget. They are limited, but they are possible. There are additional powers—the new fiscal framework has just come out and, although it did not go as far as we would have liked, it added a bit more—and some of those new powers are not just fiscal, but about increasing the

powers of the Parliament over, for instance, some aspects of migration, which would allow us to build and grow our tax base.

In the middle, there are things that we can do under devolved competencies that would take a number of years to do, so we need to get started now. In five or six years' time, we do not want to be sitting around and saying that we still all agree that the council tax needs to be reformed, or that we still all agree that we need to look in more detail at land taxes, and find out that we have not completed the registry or we have not started the process of a new revaluation. I really urge the addressing of those things. It is not like the trade union movement to think five years ahead—we are usually worried about what is happening tomorrow—but I encourage this committee and anybody else to think really clearly about the things that we can do now, which, in four or five years' time, will give us a greater range of options when it comes to the fiscal challenges that we know that we will face.

The Convener: Thank you very much for taking the time to speak to the committee. The evidence that has been gathered from this inquiry, including an evidence session with the Deputy First Minister in early October, will help us to inform the committee's pre-budget 2024-25 scrutiny.

That concludes the public part of today's meeting. The next item on our agenda is consideration of our work programme in private.

11:55

Meeting continued in private until 12:07.

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