OFFICIAL REPORT
AITHISG OIFIGEIL

# Finance and Public Administration Committee

**Tuesday 21 November 2023**

Session 6

The Scottish Parliament
Pàrlamaid na h-Alba

## Tuesday 21 November 2023

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## FINANCE AND PUBLIC ADMINISTRATION COMMITTEE

**30th 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:**

Niall Caldwell (Scottish Government)
Matthew Elsby (Scottish Government)
Daniel Johnson (Edinburgh Southern) (Lab) (Committee Substitute)
Audrey Nicoll (Aberdeen South and North Kincardine) (SNP) (Committee Substitute)
Shona Robison (Deputy First Minister and Cabinet Secretary for Finance)

**CLERK TO THE COMMITTEE**

Joanne McNaughton

**LOCATION**

Committee Room 1

# Scottish Parliament

## Finance and Public Administration Committee

*Tuesday 21 November 2023*

*[The Convener opened the meeting at 09:31]*

## Interests

**The Convener (Kenneth Gibson):** Good morning, and welcome to the 30th meeting in 2023 of the Finance and Public Administration Committee. We have received apologies from Michael Marra; Daniel Johnson is attending as his substitute. We have also received apologies from Michelle Thomson; Audrey Nicoll is attending as her substitute. I welcome both to the committee.

As it is Audrey Nicoll's first time attending the committee, I invite her to declare any interests that are relevant to it.

**Audrey Nicoll (Aberdeen South and North Kincardine) (SNP):** Thanks, convener. I have nothing to declare.

## Scottish Fiscal Framework: Independent Report and Review

09:31

**The Convener:** The next item is an evidence session with the Deputy First Minister and Cabinet Secretary for Finance on the Scottish fiscal framework independent report and review and VAT assignment in Scotland. Ms Robison is joined by Scottish Government officials: Matthew Elsby, deputy director of fiscal policy and constitution; and Niall Caldwell, corporate treasurer. I welcome all of you to the meeting and invite the cabinet secretary to make a short opening statement.

**The Deputy First Minister and Cabinet Secretary for Finance (Shona Robison):** Thank you, convener, and good morning. I am pleased to have the opportunity to attend this meeting to discuss the recent fiscal framework review.

The agreement with the United Kingdom Government to publish an updated version of the Scottish fiscal framework on 2 August fulfilled a key commitment in the First Minister's policy prospectus. Since the fiscal framework was agreed in early 2016, it has been thoroughly stress tested as Brexit, the pandemic and the cost of living crisis have unfolded. Therefore, it was right to review arrangements and consider improvements.

The new agreement with the UK Government includes a balanced set of changes that strengthen the financial management tools that are available to the Scottish Government and provide the Scottish Parliament and the Scottish Government with greater long-term funding certainty. That said, I want to be clear that the review was not as broad in scope as the Scottish Government would have liked it to be. That reflects the fact that the scope and process for the review and its outcome were subject to agreement with the UK Government. Nonetheless, under the circumstances, the revised agreement represents meaningful progress and a good outcome for Scotland.

The adoption of the indexed per capita block grant adjustment methodology on a permanent basis is a significant win for Scotland. The authors of the independent report estimated that the use of the indexed per capita methodology for calculating income tax block grant adjustments alone could be worth around £500 million a year by 2026-27 compared with the use of other methodologies that were considered in 2016.

The agreement also provides a substantial increase in the Scottish Government's resource borrowing powers to manage tax and social security forecast errors—the amount has doubled from £300 million a year to up to £600 million a year of borrowing capacity. That greatly improves the Scottish Government's ability to manage and smooth funding volatility driven by forecast error.

The removal of drawdown limits on the Scottish reserve is also an important development. It provides a significant increase in reserve flexibility and improves the Scottish Government's ability to manage funding across financial years.

The agreement to uprate borrowing and reserve limits in line with inflation ensures that the effectiveness of those powers will be maintained in real terms, which makes Scotland's financial management arrangements more sustainable.

Taken together, and within the context of the narrowly scoped review that was on offer, those are meaningful improvements to the framework and the financial management tools that are available to the Scottish Government.

That said, we should not lose sight of the scale of the fiscal challenge in the aftermath of the pandemic, the on-going cost of living crisis and the urgent need to tackle climate change. Although the changes to the framework are welcome, they are not of the magnitude required to offset that broader fiscal challenge. That requires action by the UK Government and I hope that the Chancellor of the Exchequer will heed calls from the Scottish Government to take action on public services, fuel poverty, net zero and the cost of living as part of tomorrow's autumn statement.

I also understand the concerns that the committee expressed about the process surrounding the review and its timing. The Scottish Government's preference had been for a process involving broad stakeholder involvement. However, when a window of opportunity emerged earlier this year to conclude an agreement with the UK Government on changes to the framework, I was mindful of the value of securing borrowing powers ahead of the 2024-25 budget and that we were dealing with a UK Government that is likely to go into election mode soon. In that context, I judged that it was appropriate and prudent to conclude a deal when it became possible to do so.

I hope that the committee recognises the improvements that have been secured through the revised agreement and I look forward to discussing the detailed arrangements.

**The Convener:** Thank you for that helpful opening statement. The committee was taken by surprise by the announcement. I recall what a tortuous process it was to construct the fiscal framework in the 2011 to 2016 session of the Parliament. Had it not been for the First Minister and Deputy First Minister of the day digging in their heels at the last minute, we would have ended up with a framework that would have cost this Parliament several billion pounds over years. A deal was struck. Therefore, we expected the review to be a much more drawn-out process.

You touched on the process. On the delegation of powers over taxation, for example, the UK Government still has control over national insurance, VAT, quite a lot of income tax, corporation tax, fuel duty, savings, dividends and excise duties on cigarettes, tobacco and alcohol. Did the Scottish Government propose any of those for devolution? We will talk about VAT assignment in a minute. How far did the Scottish Government try to push the envelope? I appreciate that you said that you had an opportunity to secure improvements, but it is clearly not a negotiation of equals. Where are you pushing in addition to the areas that you mentioned in your opening statement?

**Shona Robison:** You are right that a window of opportunity was open to us. The former Chief Secretary to the Treasury, John Glen, was keen to conclude matters in advance of any potential changes to personnel in the Treasury. We understood that the window of opportunity might not remain open for long.

The narrow scope of the review was made clear to us. Of course, over time, we have demanded and requested additional financial levers and the devolution of further taxes. We will continue to do that but it was made clear that a deal could be made on the limited scope that was set out, which I covered in my opening remarks.

There was a judgment to be made about whether to accept the narrow scope to get tangible gains or to continue to argue for a widening of the scope. My judgment was that what was on the table was limited and nothing else was going to be put on the table. Therefore, it was prudent to secure the gains in a negotiation on the narrow scope, which we eventually managed to do. Those are judgments, and it was my judgment that, despite the narrow scope, there were still substantial gains to be made.

**The Convener:** You are being diplomatic in the responses that you are giving. It seems to me—correct me if I am wrong—that you were presented with a take-it-or-leave-it situation with little wriggle room. As my mother would say, half a loaf is better than no bread. Was that the kind of approach with which you were presented?

**Shona Robison:** We had to be pragmatic. I would not want to underestimate the gain that was made with the adoption of the indexed per capita block grant adjustment methodology on a permanent basis. In my opening statement, I set out that that could be worth around £500 million per year by 2026-27, so that was important. I was also mindful of the potential negative tax reconciliation quantum for 2024-25. We are now in a different space with the quantum, but at the start of the process, we did not know what it would be and it would have had a material impact on our budget next year. Therefore, being able to increase our resource borrowing powers from £300 million to £600 million was important, and that will be able to cover all the negative tax reconciliation for next year. Those things were uppermost in my mind. I accept that, if we had started with a fresh negotiation, other matters—some of which you have mentioned—would have been on the table. However, in order to secure some immediate benefit, I made that judgment and that was our conclusion. The negotiation took place within a limited window of opportunity.

**The Convener:** The indexed per capita methodology was crucial to securing the deal in 2016. Because it came out at the last minute, it is important that it has been consolidated, so I think that that is a significant gain. Inflation linking capital borrowing is also important. When I looked at the projected increase in capital available as a result over the next four years, I was concerned that it seems to be tied to the gross domestic product deflator, which bears no resemblance whatsoever to inflation in the capital sector. So, even if those limits go up by the amounts that are predicted, will it not still mean that there is a real terms reduction in the capital that is available to the Scottish Government?

**Shona Robison:** The capital outlook is really challenging—you are right to point to that—for a number of reasons, including, essentially that the capital budget has not been inflation proofed, which impacts our capital availability with an almost 7 per cent reduction over the foreseeable future. That has a huge impact on infrastructure investment. Again, there was no option to use other mechanisms—that was not on the table. It comes back to the limitations of what was on the table and the issue of having a recognition, at least, of the capital budget growth. We felt that the limited gain was important, however, changing the mechanism was not on the table.

**Matthew Elsby (Scottish Government):** Yes, that is where we were. That approach was taken in the context of a world in which there was no inflation proofing in the capital budget, and any indexation is better than nothing. On the choice about which mechanism to use, the GDP deflator is used to index most public sector costs and it is the way that the Treasury will view any costs across the public sector. There were no conversations about using a different method of indexation, and I do not think that the Treasury would have countenanced using anything other than the GDP deflator, anyway.

**The Convener:** We have spoken about prudential borrowing over the years. It is available to local authorities, and it has always seemed bizarre to me, as well as many others, that local authorities appear to have more flexibility with borrowing than the Parliament does.

**Shona Robison:** That point has been made on a number of occasions. There is scope and a need for a discussion of those fundamental issues. We would have liked to have got into that space, but, as I said at the start, when you are in a negotiation, you can only negotiate within the parameters of the other party's willingness. In this case, those parameters were narrow, so a judgment had to be made.

Those issues remain on the table. As you have pointed out, the prudential borrowing powers of local authorities are markedly different compared with those of the Scottish Government and other devolved Administrations across the world, and that is not acceptable. Those matters remain live and we want to get into the space of further negotiation on them. However, this negotiation was very limited in scope.

09:45

**The Convener:** I am just going to ask a couple more questions and then open it out to colleagues around the table. We have a summary of the changes to the fiscal framework. They are all pretty straightforward and I think that the committee has a good grasp of most of them—no doubt my colleagues will ask for further clarification. However, I am a bit vague about the coastal communities fund. It says in the table of changes that

> "A baseline addition was made equal to the UK government spending on CCF in the year immediately prior to devolution."

The next column says that the CCF is now going to be absorbed into the Barnett formula, with

> "no immediate impact on funding."

The important word there is "immediate". What will that really mean as we move forward? I ask that as someone who represents a coastal and island constituency.

**Matthew Elsby:** The coastal communities fund is essentially an England-only fund, for which the Treasury adjusted our block grant. We received roughly £5 million per year in respect of the coastal communities fund through the 2010-2018 period. That was a flat adjustment to the block grant, so that was not quite the same thing as Barnett. It was just a straightforward increase to our block grant. The coastal communities fund has been disestablished in England, but that adjustment to our block grant remains, so there is no impact on our overall funding.

The fiscal framework is basically trying to tidy that up and be clear that that adjustment to the block grant remains in perpetuity. If England were to do something similar to the coastal communities fund in the future, that would incur a Barnett consequential and we would get funding alongside that at the same time. The change is really about tidying up a bit of the confusion within the fiscal framework, but it has no impact on our funding position right now. If there were to be additional funding in line with something like the coastal communities fund, we would get a Barnett consequential in response.

**The Convener:** That is great. My last question is about VAT. As you will be aware, last week we took evidence on VAT assignment; we had a round-table discussion with a number of organisations, including the Scottish Fiscal Commission and Audit Scotland. We had planned a 75-minute session but we took only 50 minutes because it became very clear that no one thinks that VAT assignment is in any way a good idea. I might not be speaking for everyone, although I am pretty sure that I am, but we felt that it was added to the Smith commission so that it could appear that the commission was going to move towards 50 per cent of taxation being devolved at some point and it was thrown in as part of that mix.

However, when we looked at the intricacies of assignation and the nightmare that it would be—HM Revenue and Customs, for example, briefed us on volatility, as did many others—it appeared to us, the Fraser of Allander Institute and the SFC that it was not in Scotland's interests to secure the assignment of VAT. The volatility would be huge and we could see zero benefits, because we would not have control over the policy or the VAT levels at all. Of course, it was also a way of getting around the fact that, when we were in the European Union, we could not devolve VAT to sub-state legislatures.

Will the Scottish Government abandon the policy of assigning VAT or will it consider whether VAT can potentially be devolved in future? What is the Scottish Government's position on that? It seems to us that Scottish Government officials have done a lot of work on that over many years. I feel for the people who have been doing that work, but it is a dead end as far as we can see. That is the unanimous view of the committee and, indeed, of the people who participated in last week's round table.

**Shona Robison:** I am very clear that the uncertainty associated with the proposed approach to VAT assignment, along with your point about no additional fiscal or policy powers being granted to manage it, is an inherent and currently unmanageable risk to the Scottish budget.

A lot of the work that has gone on has tested some of that. In the fiscal framework review, we got to an acknowledgment of the complexity and risk. The concerns then really need to be addressed by both Governments. Officials have met following the conclusion of the review to establish where both Governments stand on the matter and to discuss next steps.

There will be another meeting early in the new year at which I think that evidence from this committee will be part of the discussion on whether the conclusions on VAT assignment are now clear in relation to the recommendations by all the experts and the evidence heard at this committee.

The outcome of those discussions will be considered at a future meeting of the joint Exchequer committee. My intention would be to keep the committee updated on that outcome. The process would need to come to a position that is acceptable to both Governments in relation to what happens next, rather than only one Government giving its view. I am very aware of that and I would like to get to an agreed position on what we do with the issue.

However—in total agreement with the convener—I would not countenance taking on that inherent risk without any of the policy levers. To be charitable, it was perhaps simply not fully understood at the time that the inherent risk and the impact on the budget was going to be borne totally by the Scottish Government. In light of all the evidence that we have now, I would like to think that we would come to a pragmatic and sensible conclusion.

**The Convener:** As well as the institutions that I mentioned, the Chartered Institute of Taxation also participated in the round table. In the briefing before the session, HMRC told us that the volatility in the current financial year is of the order of 9.81 per cent. It would be a real shock; who knows where we could be. That is the highest that it has been in the past 12 years. There is also the bureaucratic cost and the politics of who would gain and who would lose and so on. The committee is clearly of the view that it is simply not worth the candle for all the stress and distress that it would cause. We cannot see any real gain for Scotland—or, indeed, the UK—in it. It would simply be a bit of a nightmare.

**Shona Robison:** That conclusion is really helpful.

**The Convener:** I will now open up questioning to colleagues.

**Liz Smith (Mid Scotland and Fife) (Con):** Good morning. I will pick up the theme of the principles of the Smith commission, which are inherent within both the 2016 fiscal framework and this one.

The cabinet secretary will know that the witnesses who have come to the committee plus the three Davids—Iser, Bell and Phillips—are very clear that there are tensions within those principles; specifically, that there is a tension between taxpayer fairness and the principle of no detriment. Does the Scottish Government accept that very strong tension? Out of those two—taxpayer fairness and no detriment—would you focus on one of them as the particular priority?

**Shona Robison:** Liz Smith is right to point out the inherent tensions. Clearly, both principles are hugely important. Given the narrowness of the scope of the review and that, in relation to the methodology, we were focusing on the ability to borrow in order to deal with tax reconciliation and the Scotland reserve, it is fair to say that the priority was very much in no-detriment territory. It was about making sure that we protected our position as far as we could, within the limited scope of the review.

As I laid out in my opening remarks, I was very aware that decisions on the methodology would make a huge difference to the quantum in the Scottish budget, taking into account the issues of population growth. The no-detriment principle played into that to a larger extent because of the narrow scope of the review. That is my honest assessment. That might not have been the case had we been looking at a broader range of matters in the review, but in relation to those particular issues, that was foremost in my mind.

**Liz Smith:** The tensions have been flagged up a lot and there are obviously debates to be had about whether the Smith commission principles need to be slightly revised as we go into further fiscal frameworks. Nobody has said to us that all the Smith principles can be achieved at the same time, so it is about the balance that the cabinet secretary described earlier, of deciding what the priorities must be when choosing principles.

As we go into a possible five-year period before we have to look at the fiscal framework again, when, as I understand it, both Governments will have the facility to make suggestions, will the Scottish Government make suggestions about revising the Smith commission principles?

**Shona Robison:** That is a fair comment and a fair assessment, and we would have to consider that. The principles were a set of compromises that emerged from a political negotiation. We have probably learned from that process. In relation to what we just discussed about VAT assignment, it is necessary to be clear and careful about what is part of that negotiation. Some of those areas were inserted into the Smith commission at the last minute.

The principles would need to be looked at. We would be in a completely different era with a completely different set of arrangements, so we would have to look at it in the round.

**Liz Smith:** There is a case to be made; it has been put to us by witnesses that there were different economic circumstances when those arrangements were first set up. However, there is an on-going relationship between the UK and the Scottish Governments that determines that, over the next period, things could be looked at again.

On that point, cabinet secretary, in the chamber on 27 September, you were very complimentary about the Scottish Government's relationship with the UK Government. You spoke warmly about the improved relations between the Scottish Government and the UK Government and you mentioned John Glen. Are the negotiations in a better place than they were before?

**Shona Robison:** Let me be candid. John Glen was perhaps an oasis in a desert. We were able to do business with someone who was very clear about his objectives and was open and straight about them. Treasury officials were in a very productive space. That comes back to the window of opportunity and John Glen recognised that that window might be open only as long as he was in the position, to put it bluntly.

Sometimes it is about relationships and you can find a negotiation and, obviously, that works both ways. We found ourselves in a situation where there was a clear willingness on both sides, despite the limitations, to get business done. John Glen has now moved on. I have not yet met the new Chief Secretary to the Treasury, but hope to have a call with her in advance of the autumn statement.

10:00

In the context of the very difficult relationship that we have with the UK Government and in my experience of dealing with a number of ministers, John Glen was a breath of fresh air. I hope that I am not making him blush by saying that; I will probably not do his career prospects much good.

**Liz Smith:** Not at all. It is good to hear that, cabinet secretary, because that has not always been the case, particularly when it comes to financial discussions and the fiscal framework. I, and the public, think that it is very important that Governments work together to get the best deal for Scotland, so I place on the record that I think that that is encouraging.

**Ross Greer (West Scotland) (Green):** I will return to the convener's line of questioning about the changes to capital borrowing limits and apologise if you covered this in your answer to the convener and I missed it. Given the point that was made about the extent to which capital inflation has gone far beyond not only the GDP deflator but also measures of consumer inflation, was there any discussion of backdating for a year or two, in order to apply even the GDP deflator, never mind the level that capital inflation is actually at?

**Shona Robison:** As you can imagine, we pushed on a number of fronts to try to get the maximum benefit and best deal and were more successful in some areas than in others. Getting indexation was better than getting nothing on capital, but we would clearly have wanted that to go further.

The biggest challenge that we face comes from capital borrowing limits. As part of the budget, I will lay out the full implications of that for the Scottish budget and for infrastructure projects. It is a real challenge and links directly to the economy, economic growth and the ability to invest in Scotland's infrastructure. Capital borrowing limits are crucial and will be a major impediment to growth. We got as much as we could achieve, but were just not able to expand the basket of measures that were being looked at.

**Ross Greer:** What was the UK Government's rationale for that approach to capital borrowing? I am not asking you to break any confidences, but it is useful for the committee to understand the extent to which there were competing public policy objectives and to know where the balance of power lies in the context of partisan politics.

**Shona Robison:** That word "balance" is important. There is always a balance of who gets what from a negotiation. What came out of the other end had to satisfy some of our fundamental red lines—of which we had a number—but the UK Government also knew how far it was prepared to go and did not want to be seen to go too far because there are those in the UK Government who perhaps did not like some of the outcomes of the fiscal review itself. Everything is a negotiation, but they had red lines too and they were not going to budge on that one.

Our officials and those from the Treasury would push the boundaries with each other before John Glen and I got in the room, looking at where those boundaries actually were and what was acceptable. We had to reach a balance, or it would not have been agreed. Unfortunately, that meant compromise on our part and capital borrowing was one area where we compromised.

**Ross Greer:** Thanks for that. Now that—

**Matthew Elsby:** Could I add two points to that?

First, throughout the negotiation, the Treasury and the chief secretary set out their key constraints and their fiscal rules. Basically, any borrowing or additional fiscal powers on our side would score against their fiscal aggregates, and the chief secretary was clear throughout that that would affect the UK's fiscal position. That confined negotiation. Although we pushed, in places, to secure greater powers, the Treasury viewed that as a zero-sum thing, as anything that it gave us would be a loss to its fiscal position.

The second thing to mention is that, throughout the negotiation, we had it in mind that any additional capital borrowing powers would still effectively score against our resource position. If we borrow more through capital, it is a resource cost in later years. There is always a consideration here: if we were to increase our capital borrowing powers, what would that mean in practice for our resource position? Indexation and a steady increase over time was something of a prize, as that was a sustainable position to end up in.

**Ross Greer:** That is really useful to know. It is helpful for us to understand that, from the UK Government's perspective, the negotiation was not just about the well-trodden constitutional ground of where power lies; it was also about the UK Government's policies in relation to debt and deficit and the contributions that are made to address them.

On the point that you have just made about the impact of capital borrowing on the resource budget, neither of those budgets is particularly positive for the Scottish Government over the next couple of years. What is the practical effect of the gradual increase in the capital borrowing limit on what the Parliament should expect to see? The expectation is that the capital budget will not offer a particularly rosy picture. Does that fundamentally alter anything? It has already been discussed that the current level is nowhere near where capital inflation is at, and we are already at a point at which we cannot do everything that, a couple of years ago, we thought that we would be able to do. What should the Parliament expect the effect to be on budgets over the remainder of the parliamentary term?

**Shona Robison:** It will probably be at the margins. I think that that would be a fair assessment. The agreement helps, but it will not make a major impact on our ability within the capital picture.

**Ross Greer:** Is there any shift in the Scottish Government's strategic priorities for capital spend directly from the block grant, as opposed to what goes on regarding borrowing? In other words, what would the Government consider by way of capital projects that are appropriate for borrowing, as opposed to the funding coming straight from the direct capital grant? Is that position essentially unchanged following the agreement?

**Shona Robison:** It is largely unchanged.

**Niall Caldwell (Scottish Government):** Yes. No specific projects are earmarked as being funded by borrowing or by the block grant. Borrowing still represents less than 10 per cent of the capital budget in totality. For reasons of practical reality, it cannot be assigned to specific projects.

**Shona Robison:** As I said earlier, part of the budget process will require me to set out what we are able to do for the remainder of this parliamentary session and, under the infrastructure investment plan, going beyond the longer-term horizon. We have been looking to innovative financing models to try and fill some of the space, but that is not without its challenges around resource costs. There are no easy answers. Again, I would make a plea with respect to the UK Government's autumn statement tomorrow, when there is an opportunity to make a change of direction on capital. That would be very welcome and my letter to the Chancellor of the Exchequer included the point that there needed to be more support for the capital position. [*Interruption*.]

**The Convener:** Apologies: I have just had a wee aside with one of the clerks about the letter. I have received the letter, but the clerks have not.

**Daniel Johnson (Edinburgh Southern) (Lab):** I would like to follow on from that line of questioning. Matthew Elsby has stated that, essentially, the Treasury was considering the matter in the context of its own borrowing. That having been said, the Treasury does not state its borrowing parameters on the basis of an index of inflation. It mentions a percentage of GDP on a rolling five-year average and overall total borrowing against GDP. Indeed, that is how all economies, in broad terms, will consider their year-to-year quantum of borrowing and their overall debt. I am just wondering whether that was explored.

More broadly, if the principle of taxpayer fairness is fundamentally about ensuring that policies are cognisant of how they impact tax receipts, is there not a risk to both Governments should the Scottish economy underperform or overperform compared with the UK economy? If we underperform, we could be left with a more generous borrowing allowance than was intended. If the Scottish economy overperforms compared with the UK economy, even an annual overperformance of 0.5 per cent over five years could leave that quantum looking considerably smaller than it did at the point when it was agreed.

Did you explore looking at that from within the parameters of the Treasury's fiscal rules? Can you comment on the risk to both Governments if you index against inflation rather than the economy?

**Shona Robison:** Matthew Elsby, do you want to come in on that? I think that it is fair to say that risk is inherent in every decision. I guess that our starting point was to minimise that risk for the Scottish Government and what came out of the review does that.

**Matthew Elsby:** It is important to distinguish between the resource and the capital borrowing policies with regard to how those differ, how they are set up and what they are meant to do. On the resource side, the tax reconciliations are extremely narrow and we can borrow only to cover the forecast error. The Treasury has been pretty adamant about that since day 1.

We explored with the Treasury whether we could have more generous borrowing requirements, particularly on loan tenor and that sort of thing. The Treasury basically said no to that. That is a different kettle of fish from what we look at on the capital side, where we have a bit more flexibility about how much we borrow, what we borrow for, the length of those repayments and that sort of thing.

On the resource side, we absolutely bear the risk that, if the Scottish economy grows less quickly than the rest of the UK's, that will be reflected in our tax receipts. Our borrowing on the resource side is not to address that risk but to address the risk around forecast error and reconciliations and the fact that things will move around at different points during the year.

However, on the capital side, there is an understanding that there might be a need to borrow to invest in significant projects at certain times. That is borrowing that we will have to repay, but we have some flexibility over how we do that.

**Daniel Johnson:** Even if you are looking at forecast error, ultimately, that will be driven by the size of tax receipts, not by inflation. Both those borrowing pots, for want of a better description, are indexed not against inflation but against the GDP deflator. It just strikes me that, even using the Treasury's logic, it is not indexing against the right thing.

**Matthew Elsby:** It is a reasonable point that getting any indexation is better than nothing. However, you could argue that indexing against tax receipts might be better or that indexing against block grant adjustments might be better. Ultimately, there will be risks inherent in any indexation, and the question comes down to where the balance of risk sits.

**Daniel Johnson:** On a related point—this is a bit of a hobby-horse of mine from my previous tenure on the committee—I have always had a fear that the way that block grant adjustments are calculated becomes risky as time goes on. Fundamentally, you are indexing back to 2016. When you are in fiscal year 2017, that is fine, but the moment that you are into fiscal year 2021, let alone 2031, that becomes an increasingly synthetic exercise.

Was that explored as something that will need to be reviewed and revisited in future years? Especially when you hit the 10-year mark, unwinding all the different fiscal decisions made by the UK and Scottish Governments in order to benchmark and then calculate block grant adjustments becomes very prone to human error—or it certainly becomes a very synthetic exercise. Was that explored in the discussions, even if that might be something for future negotiation?

10:15

**Shona Robison:** I will bring in Matthew Elsby on that. You have made a really important point, and those issues need to be looked at in the next phase of negotiation.

Earlier on, the point was made that the principles and agreements were established in a very different economic climate. The economic shocks that we have seen since then have exposed some of those issues. In the longer term and in the next phase of negotiation, we need to look at those issues in more detail and expose them to the true light of what we have come to know over the longer period of time rather than what we knew in the earlier years of devolution, which were economically reasonably stable.

**Matthew Elsby:** That is one of the places where the independent report helped and framed our considerations. Members will see in the Scottish Government's evidence to the independent report that we were getting into the space of whether there are fiscal insurance mechanisms that we should think about, the extent to which block grant adjustments are sustainable in the long run, and the extent to which we can disentangle policy effects from block grant adjustments.

In one particular place, the independent report was helpful in shutting down some of those lines of inquiry. We were considering whether there were options to rebaseline and reset our block grant adjustments after, say, 10, 15 or 20 years. The independent report and the contributions of the authors were quite helpful in shaping that. It is very difficult to do that mechanically and to come up with ways to look at that.

I do not want to pretend that where we got to in 2016 was perfect—obviously, there are challenges with that—and I do not know whether we will have that sort of mechanism in place in 2070. However, the authors' contribution was helpful in saying what things would be quite difficult to do in a way that was fair to both sides and would not breach the Smith commission principles.

**Daniel Johnson:** This issue is perhaps something for the committee to explore—I am mindful that I am a substitute member. Some have questioned the timing of the release of the independent report and the final negotiations. I understand the Deputy First Minister's explanation that the issue is very technical, and I concede that there is probably a limited audience of interest, but nonetheless we are talking about the fiscal envelope that is available to the Scottish Government, which is of fundamental importance to everything that we do.

Has there been some thought in the Scottish Government that there should perhaps be a period to allow for scrutiny and discussion, because these matters are complicated? We have had quite an interesting and constructive discussion this morning, which can help analysis. Will the Scottish Government undertake to have the possibility of scrutiny and, at the very least, enable independent reports to be digested? Having those things concurrently undermines the ability to scrutinise.

**Shona Robison:** We would definitely want to reflect on the process. My predecessors engaged with the committee and stakeholders in the early days of the review, and the independent report was jointly commissioned, which was important for its credibility and acceptance as part of the process. There was then the rapid opportunity to conclude matters. The CST made it very clear that he wanted that to happen in a confidential space. I would not have had any issues at all with having further engagement with the committee and stakeholders but, given the CST's very clear position, that would have been very difficult. Sometimes in a confidential space, agreements can be reached that might otherwise be difficult. Those are balancing acts.

Going forward, our clear preference would be to have the engagement that preceded the reaching of the agreement, not just with the committee but with external stakeholders, and to have that in a more open and transparent way.

**Daniel Johnson:** What you have just set out explains why the sequence happened, from an intergovernmental perspective, but do you acknowledge that that has not necessarily accommodated the parliamentary process that one might want?

**Shona Robison:** I accept that. However, had we held out to say that we were not going to make the agreement unless we could have that, we would not have got the agreement.

**John Mason (Glasgow Shettleston) (SNP):** I will start with a few points that have already been raised. You said that we need to have a more fundamental review at some point. If, theoretically, there was a general election and a change of Government in January, could we start the fundamental review in February?

**Shona Robison:** You can be assured that our key asks on a number of matters will be put to any new Government that emerges after a general election, not just on fiscal powers but on things such as the United Kingdom Internal Market Act 2020, the Sewel convention, the way in which Governments interact and the respect agenda—trying to get back to a position of respect. The days of the memorandum of understanding seem a long way away. A lot has happened. The internal market act in particular is a real impediment to devolution and is an erosion in so many respects. It makes the day-to-day interaction with the UK Government very difficult. That is not just a Scottish Government position, I hasten to add, but a Welsh Government position.

There is important work to do on what the devolved Administration's relationship is with the UK Government. Rather than that being a party-political issue, there is a more fundamental issue of the relationship between the devolved Administrations and the UK Government. The balance of power has shifted away from the devolved Administrations in so many respects. There is an opportunity to reset and refresh that. The element of fiscal powers that we have been talking about is a part of that.

**John Mason:** That is helpful, and I am sure that we will return to it in the future.

When it comes to how things have been done, the last time that the fiscal framework was set up, everything—as far as I could see—was on the table. John Swinney, I think, came back and told us what was happening and we debated it. However, this time, a limited amount was on the table. Obviously, something has changed.

To go back to VAT, you said that both Governments would have to agree either for the idea to be dropped or for it to go ahead. Is that the case? Could Westminster impose it on us?

**Shona Robison:** I do not think that the UK Government would want to do that, to be fair. I think that it understands the risks, and I do not see any appetite for a unilateral imposition of VAT assignment. In the light of all the evidence—from HMRC and major influential organisations, which all say the same thing—I do not see any Government wanting to impose something in the full knowledge of the harm and risk that it would cause.

What I was getting at earlier was that what we end up saying about VAT assignment post-review will be discussed at a future joint Exchequer committee. The point that I was making is that I foresee us reaching some kind of joint position on what we do with VAT assignment in future.

**John Mason:** On the bigger picture, I take your point—many of the experts from whom we heard at last week's meeting were also quite positive about the agreement and about the use of the IPC method for the fiscal framework. However, I still have some concerns. First, we always seem to be competing with London. Our economy has to keep up with the rest of the UK. On the whole, we keep up with most parts of the UK, but every part of Europe struggles to match London. Is there not a fundamental bias against us?

Secondly, figures were mentioned at last week's meeting in relation to Barnett that showed how our finances are being squeezed as a result of that. It was suggested that whereas, in the past, we got 129 per cent of rest-of-UK spending, we now get about 125 per cent of that spending, and that figure will probably fall to 120 per cent; it might even fall to 115 per cent.

If we put all that together, are we being squeezed in the longer term? Is that what we have got ourselves tied into?

**Shona Robison:** On your first point, there are huge issues relating to population growth in Scotland relative to population growth elsewhere. The key levers over migration, as well as some of the key economic levers, lie elsewhere, so being able to address the fundamental issue of lack of population growth without having the levers to do so is very difficult. Of course, that impacts on how the block grant adjustment is applied.

If we look at tax take and anticipate the growth in tax revenues that is due to tax policy that is set here in Scotland, from the HMRC data, the signs are that performance continues to be strong, but that all needs to be put through the block grant adjustment machine, which is based on population growth, and what pops out the other end is what we know to be the case.

That is a challenge. Addressing it would require a pretty fundamental change, which would need to be part of a bigger, more fundamental review. The Barnett squeeze is definitely reducing the spending that is available over time. If you want, I can bring in Matt Elsby or Niall Caldwell to say more about that.

On the Crown Estate, we strongly argued that, over many years—I am talking about the predevolution period and the early years of devolution—the investment in the Crown Estate has been particularly focused on London and the south-east, with no focus on investment in the Crown Estate in Scotland. We have made that a success story by focusing on investing in the Crown Estate and, in particular, offshore wind. The fact that that was part of the negotiation was a recognition of that success. The success of the Crown Estate since 2016, when the fiscal framework agreement was reached, has been recognised by the UK Government.

We made the point that the underinvestment in the Crown Estate in Scotland compared with the Crown Estate in London and the south-east had to be part of the understanding of the position that we ended up in on the Crown Estate. To some extent, we had to compromise a bit, but I think that we landed that point reasonably successfully.

10:30

Economic performance relative to that of London and the south-east is not just an issue for Scotland; it is also an issue for parts of England, too. Of course, it has major consequences for us in terms of the funding adjustments that are made as part of the fiscal framework. We were never going to be able to unpick any of that as part of this review. It is very much an issue of what comes next. It would mean a fundamental look at how the relationship between our budget and UK finance is constructed.

**Matthew Elsby:** The point that John Mason makes about London is absolutely a risk and something that we need to watch. It is also early days and we are still working with a fiscal framework that is relatively new. We are trying to work out what the long-term direction of London and the Scottish economy will be over time.

The important thing to bear in mind is that it is not about the absolute level of wealth in London and the south-east but about the extent to which growth in GDP changes in England relative to Scotland. We know that that is not clear cut. Since 2007, we have seen GDP per person grow by about 10 per cent in Scotland relative to growth of about 6 per cent in the UK. It varies and it is not completely clear. We will be able to get a clearer view on that only when we have lots more data. However, you are right to say that it is a risk and something that we should note.

**John Mason:** I am reassured that that is on the table and that we will be looking at it in the longer term.

I have a couple of specific questions. We have been told by some that the £600 million resource borrowing might not be enough, because the forecast was that the adjustment might have been greater than that—thankfully, that was not what happened.

**Shona Robison:** Well, again, it was a negotiation. We would have wanted that borrowing to go further than £600 million but, essentially, that was the landing space and a compromise—we got to where we got to and we had to make a judgment on whether to settle on £600 million. In light of my concerns about the negative tax reconciliation, you can see why progress on that was progress, as it were. We would have wanted to go further if we could have negotiated that.

**Matthew Elsby:** We looked at what impact the borrowing powers would have on the likelihood of not being able to meet an income tax reconciliation. With the £300 million limit, we assessed that there was a 14 per cent to 27 per cent risk that a negative reconciliation would breach those powers. That is now reduced to a 2 per cent to 13 per cent risk. There is still some risk in there; there is still the possibility that the powers would not cover any tax reconciliation, but they are significantly improved.

It is worth saying that that is within the current devolution settlement and, if we were to take on, say, VAT assignment, those borrowing limits would not be enough to address that sort of risk.

**Shona Robison:** Clearly, we have no intention of doing that. The big negative tax reconciliation that we thought that we were facing next year, which has been reduced—thankfully—was, of course, very much related to the forecasting during the pandemic. The figures that Matthew Elsby set out for the percentage risk demonstrate that it would not be anticipated that we would have a negative tax reconciliation of that magnitude very often. It was very much related to the set of circumstances at that time.

**John Mason:** I accept that, although the 13 per cent risk at the higher end of your estimate could still happen once in every seven or eight years.

Finally, the idea of there being a Scotland-specific shock and making provision for that has now been dropped. Can you say anything about that?

**Shona Robison:** That is because of the changes to resource borrowing. We can borrow up to £600 million, some of which can be regarded as baked into the normal fiscal framework.

**Matthew Elsby:** I might bring Niall Caldwell in to answer this question too, but it is absolutely true that some of the new powers effectively overwrite the existing settlement. There is a question about whether Scotland should have particular powers during an economic shock. We found from our previous experience that the previous powers did not work particularly well, because it was not possible to time particular borrowing powers to the year in which a shock happened.

**Shona Robison:** That goes back to what was said earlier, which is that we need a more general look at the fiscal powers. Even with further tweaks to levels, resource borrowing does not change some of the fundamental weaknesses in our ability to respond to an economic shock, whether that comes from a pandemic or for any other reason. We have very limited levers, so tweaks to some of the levels do not suffice.

**Niall Caldwell:** I have just one point. The Scotland-specific economic shock powers regarding resource borrowing and reserves are now effectively in the revised fiscal framework on a business-as-usual basis, so there is no need for a particular provision.

**Jamie Halcro Johnston (Highlands and Islands) (Con):** We have covered a number of points today. I will go back to VAT assignment. Notwithstanding the concerns that have been raised by experts at last week's meeting and by members today, is it still the Scottish Government's ambition for VAT assignment to go ahead?

**Shona Robison:** Our ambition is to have the policy levers to be able to manage VAT. The problem with VAT assignment is that you are assigned the revenues but you have none of the levers to be able to deal with risk: you get the risk but none of the benefits. If VAT and all the controls over it were devolved, that would be a very different proposition, but that is not what was on the table.

Assignment brings all the risk but none of the benefit of being able to use VAT as a tax lever to raise revenue. As I explained earlier, the evidence on that is so compelling that both Governments need to reach a position on what we do with VAT assignment in future, but we continue to want full devolution of VAT, along with the policy levers, so that we can manage that.

**Jamie Halcro Johnston:** You have made it clear that, in your discussions with the UK Government, you had to work within the parameters of that Government's clear position. If you take that principle forward in future negotiations, how can you overcome the concerns that have been raised, or your own concerns, while still operating within those parameters?

**Shona Robison:** If your question relates to VAT assignment, that is what we need to resolve with the UK Government. There are choices. Should we continue to try to find a way to mitigate the risk? A lot of work has been done on that, but the conclusion was that that is very difficult. Should we agree that it is just not feasible to have assignment without having the policy levers? An agreement could be reached—although this is highly unlikely—that VAT would be devolved to us, along with those policy levers.

The third option is that we agree that it is not feasible to go forward with VAT assignment on the basis of all the risk that it is agreed exists and that, in the light of the evidence that has been gathered since 2016, which would not have been understood at the time in the way that it is now, we decide that the risk is too great.

That decision has not been made yet, so I want to leave space for the joint Exchequer committee to come to some conclusions on the matter. It will be a joint conclusion.

**Jamie Halcro Johnston:** I will come to that in a second. The model that has been used, the methodology for which has been developed by the Scottish Government, the Treasury and HMRC, is based, I think, on the VAT total theoretical liability model. Is that model itself part of the discussions?

**Shona Robison:** Yes, but the question is whether any model could remove the risk of having the assignments but no levers to be able to manage the risk. Earlier, someone made the point that, in the current fiscal climate, that risk would be at its greatest, so if we had gone forward, the impact on the Scottish budget would have been profound. If a model that would de-risk that situation exists, it has not yet been found. Therefore, the model is theoretically part of the discussions but, so far, none of the wise heads that have been considering the matter has managed to find a way to de-risk it. I come back to the point that there needs to be a joint conclusion on what we do next.

**Jamie Halcro Johnston:** On the basis of the need for a joint conclusion, what is the timescale for that work with the joint Exchequer committee? Obviously, it cannot be an open-ended, elongated process. There must be timescales to which you and colleagues are working.

**Shona Robison:** There will be a further meeting of officials in the new year to examine where we have got to. I mentioned that the evidence that this committee has heard will be an important part of that. The outcome of those discussions will be considered at a future meeting of the joint Exchequer committee. The best outcome would be that, working together with Treasury officials, officials put some joint recommendations to us and then a decision is made. As I said earlier, I am happy to keep the committee updated.

**Jamie Halcro Johnston:** Do you mean recommendations on how obstacles can be overcome or on what will not be workable from both sides and should be parked?

**Shona Robison:** We are looking for officials to recommend to ministers the conclusions that they have come to on the art of the possible. We are not at that stage yet. We need to let that process go through. The optimum scenario would be that recommendations are made to ministers that we can jointly agree.

**Audrey Nicoll:** I have listened with great interest to the information that has been shared this morning. The cabinet secretary will know that I am convener of the Criminal Justice Committee, which has recently undertaken its pre-budget scrutiny. The evidence that we have heard during that process has reflected the significant challenges with which we are all familiar, particularly on the capital budget. That is particularly difficult for the Scottish Prison Service and the Scottish Fire and Rescue Service.

In some of the evidence that we have heard, it has been indicated that yearly increases in the budget no longer meet the needs of parts of the sector, which brings risk to it. The week before last, the Cabinet Secretary for Justice and Home Affairs gave evidence about the

“need, where possible, to have a longer-term spend-to-save vision”.—[*Official Report*, *Criminal Justice Committee*, 8 November 2023; c 27.]

Without hijacking the Finance and Public Administration Committee and turning it into a mini Criminal Justice Committee, in general terms, given the context of the fiscal framework review, is there any scope to start thinking about more of a spend-to-save approach? The cabinet secretary said that financial management arrangements are more sustainable on the back of the review, but the capital budget is still challenging and is not inflation proofed.

10:45

**Shona Robison:** There are a few issues there. The first is that we cannot escape the fact that capital budgets will decline, unless something changes tomorrow, and that the purchasing power of what can be developed and built with that reducing capital availability is constrained. Therefore, we will need to prioritise. I will set out our proposition in the budget. We recognise very much that modernising and improving the prison estate to ensure that it is fit for purpose is a priority, and we are keen to do that. We know that the pressures on the prison estate at the moment are challenging, to say the least.

You touched on spend to save. That is part of the reform agenda that I am taking forward on behalf of the whole of Government. That is about looking at ways of doing things differently, whether on resource or capital. One of the issues that we are looking at is the public sector estate in its widest sense and what we do where and why. One of the challenges of future investment in the net zero space is the requirement to bring public buildings up to scratch in terms of net zero emissions. With some buildings, it will simply not make sense to do that, given the cost. That will require us to think about co-location and where things are done, taking account of patterns of home and office working, which have changed since Covid. All of that is being looked at in the work on the estate strategy.

Looking more widely at the reform of public bodies and fiscal sustainability, one of the issues is the balance of the workforce and where that sits, as well as affordability, in terms of the size of the workforce and what the workforce does. All that needs to be taken forward carefully, and we need to ensure that what we end up with—this will take time; it is not going to happen in the short term—is a sustainable set of public services that can continue to provide high-quality service, but which might look and feel a bit different from the way that they do at the moment. The prison estate and the justice system are one part of that.

**Audrey Nicoll:** In the Criminal Justice Committee’s evidence sessions, the opportunities around reform were covered, particularly in the context of the Scottish prison estate, where a big part of the capital budget supports the reform process in modernising the estate. That also applies to Police Scotland, which has an estate strategy and is looking to modernise and upgrade its estate.

That brings me on to my next question, which picks up on—

**The Convener:** Audrey, the discussion is about the fiscal framework. I know that you had only one hour’s notice of the meeting, but you are moving away a wee bit from the subject matter that we are discussing and deliberating today.

**Audrey Nicoll:** Thanks. What I was going to ask was in the context of the new fiscal framework. As part of parliamentary budget scrutiny, how should the new framework inform and perhaps change the way in which committees approach their budget scrutiny?

**Shona Robison:** I think that it is fair to say that, for most of the Parliament’s committees, the fiscal framework is probably something that lies in this committee’s territory, because of its complexity. I guess that there will be a high-level understanding that there are some changes that are, in the main, beneficial, but the framework is probably not going to feature as a main line of inquiry for committees that are looking at, for example, capital investment in the prison estate, transport or anything else. I guess that where it matters is around resource borrowing, capital borrowing and the reserve drawdown limits, which, taken together, have some limited impact at the margins, rather than being a game changer for the capital outlook of the Scottish public finances. I suspect that the impact will be at the margins rather than at the centre.

**The Convener:** Thank you. That concludes questions from committee members, other than me: I still have one or two questions, just to wind up. Surprise, surprise.

Given that VAT assignment is, in effect, a dead duck after eight years of deliberations, does the Scottish Government intend to pursue VAT devolution or to look at how we can press for devolution of other taxes. Of course, it takes two to tango and the UK Government might not be keen, but we could, for example, press for devolution of alcohol and tobacco duties, which would generate a disproportionate income, given our overconsumption of both substances. Where would the United Kingdom Internal Market Act 2020 come into play, there? You touched on that in an earlier response. What are your priorities, other than VAT assignment? Do they include national insurance, corporation tax or any of the other taxes that I have mentioned?

**Shona Robison:** Over the years, we have set out many of our asks around fiscal powers, including potential borrowing powers. You mentioned at the start of this evidence session the disconnect whereby local authorities have, in many respects, a more straightforward borrowing capacity than the Scottish Government has.

There have been some fundamental asks, and we can add to them the other financial levers that we have asked for. VAT devolution is one example. That is a much more expansive ask, and one that would require a different political environment and a willingness to look beyond the confines of what we have been looking at.

I do not know whether that will come or not, but we will continue to put forward the proposition that Scotland needs that basket of fiscal powers in order to be able to deliver on our ambitions on both capital and resource in a sustainable and affordable way, but also in a way that recognises the economic shocks that we have been dealing with, and are still dealing with, in the midst of a cost of living crisis. The levers that we have are very limited. I think, looking back, that this is a good point at which to say that we need a more fundamental review of the powers that we have.

You made the point that it takes two to tango: it absolutely does. That is why we would have to find a landing space that is acceptable to both Governments. The use of the United Kingdom Internal Market Act 2020 is not covered by the fiscal framework, so it was not part of the negotiations. However, it is a major issue because it creates the ability to bypass transparency about how public money is allocated in Scotland in areas for which this Parliament is responsible. That really cuts to the heart of devolution. Our ask—and, I am sure, the ask of the Welsh Government—is that that be recognised. I guess that a reset is required.

**The Convener:** The fiscal framework was negotiated in 2016, and the United Kingdom Internal Market Act was imposed in 2020, so will it have an impact in the future if other areas are devolved? We will seek clarity on that.

John Mason talked about a new Government; we need to know whether Sir Ed Davey and his new Administration would be keen to have a better discussion with the Scottish Government.

**Shona Robison:** We would certainly want to test that.

**The Convener:** Yes, indeed.

We are in a state of flux, in a way. There has been a settlement that consideration of the fiscal framework will come only once in every five-year term but, as John Mason pointed out, that five-year term could be upon us relatively soon—in a year, or 18 months at the most, I think. That is why I wonder whether the Scottish Government is looking at those issues now, whether it is looking to the next stage of a fiscal framework and whether it is looking at other devolved administrations around the world.

A previous committee that I served on visited the Basque Country. Only about 6.29 per cent of its revenue is handed back to the Spanish Government; all the rest is devolved. Pensions and social security are devolved, and only the monarchy, civil guard and defence are reserved. Everything else is dealt with locally, so there are other models for us to look at.

What modus vivendi do you think we might be able to reach in the future, and are you in contact with political parties that could potentially form a future UK Government?

**Shona Robison:** We are keen to take advantage of any new thinking on how we could get into a different space.

Such decisions happen on two levels. One is the Government-to-Government level, so we are preparing some of the groundwork for that. Some of the work will be done by the Scottish Government, and some of it—this relates to key asks and getting on the front foot with what the proposition will be—will be shared with the Welsh Government. Clearly, some of our priorities will be a bit different from those of the Welsh Government, but there are some shared aims, such as on resetting the respect agenda and on issues to do with the Sewel convention and the United Kingdom Internal Market Act 2020. The Welsh Government is in a different position in respect of its fiscal powers, but it wants enhanced fiscal powers and it wants enhanced social security powers. The devolved nations are pushing for more power and responsibility, and for more levers to be devolved.

The other level on which such things happen—political-party level—is a bit trickier, because communication happens through personal connections and is done more privately. Therefore, whenever there is an election and there is the potential that a new Government will come in, there is an opportunity to be seized.

However, the convener made the point that it takes two to tango. The work would require different and new thinking. Opportunities for Governments and the civil service to get together to talk about doing things differently and taking a different approach are led by political willingness to avoid business just continuing as usual. That applies in the Scotland Office, the Treasury and any other UK department, and what happens depends on how each department regards the Scottish Government.

Political steer and appetite will be important, but there is, without doubt, an opportunity that the Scottish Government is keen to seize, because otherwise we will not get the maximum benefit for Scotland's public services and its people.

**The Convener:** I could push more on that. It was interesting to see what is the settled status of the Basque Country, regardless of what Government is in power in Madrid. That is not the situation that we have in Scotland.

**Shona Robison:** Our having such status would require a whole reset. The sky is the limit on whether we could do things completely differently; of course we could, but we would have to get the people on the other side of the negotiations on the same page, and we do not know what their appetite for that would be.

**The Convener:** To finish up, do you have any more points that you want to make to the committee, in view of the discussion that we have had during the past hour and a half? Is there anything that we have omitted?

**Shona Robison:** I do not think so; we have covered the main points. I thank the committee for the evidence sessions and for the clear steer that it has given us on VAT assignment, which is very helpful. I will do my best to keep the committee as informed as I can.

**The Convener:** Thank you very much. I also thank Matthew Elsby and Niall Caldwell for their contributions.

That concludes the evidence on the fiscal framework review, the report and VAT assignment. We will consider the next steps in private at our next meeting. That concludes the public part of today’s meeting. The next item on our agenda will be taken in private.

11:01

*Meeting continued in private until 11:11.*

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