



OFFICIAL REPORT
AITHISG OIFIGEIL

Finance and Public Administration Committee

Tuesday 9 January 2024

Session 6



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FINANCE AND PUBLIC ADMINISTRATION COMMITTEE

1st Meeting 2024, 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:

Professor David Bell (University of Stirling)

Chris Birt (Joseph Rowntree Foundation)

Martin Booth (Glasgow City Council)

Stacey Dingwall (Federation of Small Businesses)

Keir Greenaway (GMB Scotland)

Kirsten Hogg (Scottish Council for Voluntary Organisations)

Francesca Osowska (NatureScot)

Dr Jenny Peachey (Carnegie UK)

Richard Robinson (Audit Scotland)

João Sousa (Fraser of Allander Institute)

Shona Struthers (Colleges Scotland)

CLERK TO THE COMMITTEE

Joanne McNaughton

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament

Finance and Public Administration Committee

Tuesday 9 January 2024

[The Convener opened the meeting at 09:30]

Budget Scrutiny 2024-25

The Convener (Kenneth Gibson): Good morning, and welcome to the first meeting in 2024 of the Finance and Public Administration Committee. I wish you all a happy new year, and I congratulate Liz Smith, who is a member of the committee, on the award of a well-deserved CBE in the new year's honours list.

There is a single item on our agenda, which is to take evidence on the 2024-25 Scottish budget from two panels of witnesses. First, we will hear from João Sousa, deputy director of the Fraser of Allander Institute; Chris Birt, associate director for Scotland at the Joseph Rowntree Foundation; and Professor David Bell, professor of economics at the University of Stirling. I welcome all of you to the meeting and thank you for your written submissions.

We will move straight to questions. If I ask an individual member of the panel a question, other witnesses can chip in. However, I might put questions to all members of the panel. We will suck it and see, so to speak.

The Scottish Government has said that it will prioritise spending on three missions, which are:

“Equality: Tackling poverty and protecting people from harm

Opportunity: A fair, green and growing economy

Community: Prioritising our public services”.

How is the Scottish Government doing that in the budget? We will start with Mr Birt.

Chris Birt (Joseph Rowntree Foundation): I will focus first on poverty, if I may. I found the budget to be very disappointing in that regard—that is reflected in my written submission. Although there is welcome protection for some of the schemes that the Scottish Government already has in place—I have waxed lyrical many times about the Scottish child payment and so on—I do not see anything else in the budget that will significantly reduce poverty.

With the huge cuts to funding for affordable housing, in particular, there is a significant risk that the budget could lead to a rise in poverty. There are not that many budgets left before 2030-31,

when the Scottish Parliament's child poverty reduction targets, which were unanimously set by every party in the Parliament, have to be met. Every budget that ticks by until that time leaves children in this country in poverty.

I am concerned about the budget. The Scottish Government could certainly have done more on poverty.

The Convener: I read your submission in detail, and I noticed that it did not set any context on where the Scottish Government finds itself on the finances and the economics. You have talked about the need to increase the Scottish child payment to £30 and about reversing the reduction in the affordable housing supply budget, for example. You referred to that reduction as “brutal”. Given that the Scottish Government has a £484 million cut in its capital budget next year and that the resource budget has been increased by only 2.6 per cent, how would you do that? The Scottish child payment has been increased by 6.7 per cent, which is in line with the United Kingdom's increases in benefits. How would you square the circle?

Chris Birt: Ultimately, government is about choices. The Scottish Government's financial pressures are not invented; they are real—I get that. Some of that relates to the austerity that the Scottish Government has faced over the past 10 years or so, but it is also about the choices that it has made. In some ways, those have been very positive choices. The Scottish Government has made choices on extending childcare provision, the Scottish child payment and the reforms to adult disability payments, and those absolutely put pressure on the budget.

We have heard a lot about the hard choices that the Scottish Government has had to make, but there have been things such as the council tax freeze, which the Government has had to put aside £140 million to finance on the revenue side for local authorities. That would easily have covered the rise in the Scottish child payment. That money could have been much more directly targeted at poverty reduction.

That is part of my concern. I get that we are in constrained financial circumstances—absolutely—but that means that we need to focus and look with precision at how we target additional funding on poverty reduction. That is lacking.

The Convener: You have made a valid point about the choice that you would make—you would prefer the money that is being spent on the council tax freeze to be spent on addressing child poverty. Perhaps I or one of my colleagues can put that to the cabinet secretary.

On the capital front, you have said that we should reverse the reduction to the affordable

housing budget, but how do you do that in the context of a £484 million reduction in capital?

Chris Birt: Capital spending is too low in the United Kingdom as a whole, and that is reflected in the spending in Scotland. Again, I get it; the Government has to make choices about how it prioritises investment. However, it also has targets, set by this Parliament, to reduce child poverty.

The Convener: It is easy to come along and say, “You should spend this amount on that and that amount on this,” but when you use words such as “brutal” to describe reductions in housing budgets and say that such reductions should be reversed, it is incumbent on you to say how they can be reversed. What should the Scottish Government not spend its capital funding on in order to fund the housing that you believe should be prioritised?

Chris Birt: The reduction is brutal in the context of the housing situation in this country. As I have said, we need to focus the capital budget on poverty reduction, and housing is a way of doing that.

Again, it is entirely up to the Scottish Government how it prioritises the capital budget as a whole, but when we look at, say, the mix of our targets for reducing poverty and our climate reduction targets, it is reasonable for the Parliament to ask the Government—

The Convener: It is also reasonable to ask where else in the budget the money would come from to reverse that reduction. After all, we are scrutinising the Scottish budget. You have made a valid point about the council tax, and we might agree or disagree on that, but I am not seeing anything here about what should be done with capital. All you are saying is, “Oh, we should reverse that cut.” Maybe we should, but where should the money come from to do that?

Chris Birt: I was just about—

The Convener: That is my point: where should the money come from within the Scottish Government’s capital budget? For example, it has increased the capital budget for the police by 12.4 per cent. Should it not have done that? The Scottish Fire and Rescue Service’s capital budget has increased, too. Should that have not been done, either? How should the Scottish Government respond to what is, to be honest, a polemic?

Chris Birt: I was about to give you an example. When we think about poverty reduction and our climate reduction targets, is capital investment in roads infrastructure, for example, the right priority at the current time, given the increases that we have seen in rough sleeping in our country? The

way to fix that situation is to increase the supply of affordable housing, among other things. You are right to push me on the point, convener, but, frankly, those are the priorities that the Scottish Government has set for itself, and it is up to it to defend them.

The Convener: Fair enough. Basically, you are saying that you could take the money from the roads budget. Is that correct?

Chris Birt: As I have said, it is for the Scottish Government to balance its capital budget, but my priorities relate to poverty reduction.

The Convener: Okay. Professor Bell, what is your view of the three missions?

Professor David Bell (University of Stirling): I agree with a lot of what Chris Birt has said. As far as poverty reduction is concerned, the Scottish Government has made the decision on the Scottish child payment. For all social security payments, what matters is the net position—that is, how much Scotland spends versus how much it gets in compensation from the block grant adjustment in relation to social security. It was known for some time that, because there was no comparator to the child payment south of the border, it would be an additional pressure on the social security budget. There was also a question as to whether Scotland was dealing somewhat differently with disability payments. Nevertheless, all of that was known.

I am not saying that that is the wrong way to take policy, but the consequence is that the net position with regard to social security is already negative, and that negativity will continue to increase—I think that it will increase to around £1 billion in 2027-28.

In the great scheme of things, that means that tough decisions will have to be made. We knew that that was going to be the position; we have known that for some time. To take account of that, the Scottish Government must say, “Times are tough, so some other budgets will have to be trimmed.” That is really about the resource budget. What I am saying is that there were already signals that changes would have to be made to the resource budget. With the capital budget, it is reasonable to argue that a lot of what happened was a surprise that stemmed from the autumn statement, as a result of which rapid adjustments had to be made. Some of the adjustments that have had to be made could reasonably be described as brutal but, in the circumstances, the Scottish Government did not have that much choice.

The Convener: In your submission, you say that Scotland is now spending £1,092 million a year in benefits and welfare payments over and above what was devolved. The Scottish

Parliament information centre has said that, based on current projections, that will rise to £1,502 million by 2029. How sustainable do you think that is?

Professor Bell: It is sustainable if the Scottish Government is willing to say, “These other programmes will have to be cut.” Politically, it will have to be up front about what it is that it will cut in order to fund the additional social security payments. There is no easy way around that.

The Convener: On capital, you say in your submission:

“low investment is acknowledged to be one of the key impediments to growth both at the Scottish and UK levels ... public sector investment helps de-risk private investment and therefore cutting public investment will adversely affect overall levels of investment in the Scottish economy and consequently growth.”

What are the long-term implications for Scotland of the reduction in capital?

Professor Bell: I do not think that they are good. The Resolution Foundation has fairly convincingly shown that the UK in general underinvests in public infrastructure. It argues that, as a guiding principle, investment in public infrastructure should rise to 3 per cent of gross domestic product. In effect, the Scottish Government does not have a huge amount of control over the capital budget, unless it chooses to make decisions about switching resource funding. It can make such decisions, but given that it can do so only within very tight budget parameters, those will be very difficult decisions.

It seems to me that the evidence from independent sources suggests that the UK and Scottish Governments should be increasing capital spending on public infrastructure. As I said the last time I appeared before the committee, that can de-risk private sector investment. We are in a situation in which public sector investment—from the point of view of going further into debt—is becoming more and more difficult.

In thinking about not just the current generation but future generations, it seems to me that, unless the Scottish Government increases capital spend above the current fairly paltry levels, the outcome for incomes will not be good. I am not making a point about how incomes are spread but, in general, they will not increase unless there is the infrastructure to support businesses to go about their activities.

09:45

The Convener: In your paper, you talk a lot about taxation, including the Scottish Government’s decision to increase taxation for higher earners. For example, you say that the

marginal rate for people earning £100,000 to £125,000 a year—69.5 per cent—is

“possibly the highest ... in any OECD country”.

The highest marginal rate is 55.5 per cent in Denmark, 42.2 per cent in France and 55.2 per cent in Sweden. Will the impact of that high rate in Scotland be positive, negative or a mix of the two?

Professor Bell: I described the Scottish income tax structure as not really progressive—it is more disjointed. That is due to the interaction between national insurance, the personal allowance and income tax rates.

The first thing to say is that the UK as a whole should have addressed the bizarre ways in which the rules relating to the different elements of the overall tax structure do not integrate well together. That is particularly the case for people who earn between £100,000 and £125,000. For example, if a well-qualified hospital doctor was offered an increase in salary from £100,000 to £125,000 for taking on additional responsibility, she would get to keep only about £7,000 of that additional money, so it is reasonable to ask whether she would take up that offer. We are talking about people at the top end of the income distribution, but it is nevertheless true that that top end matters a lot as far as income tax revenues are concerned, because it massively and disproportionately contributes to the total tax revenue. Although a lot of other taxes impinge unfairly on poorer people, one could not say that about the way in which the income tax structure works in Scotland.

Your question gets at the issue of the behavioural response, which is very complicated, as I say in my paper. Some people might respond by not being willing to take a promotion or by working less. There is also the migration response—people not coming to Scotland—which is very difficult to calibrate. The third issue, which goes back to a point that I have already made, is that what matters as far as income tax is concerned is not how much we raise but the net position as far as the block grant adjustment is concerned. Are we ahead or are we behind? That involves comparing the growth in income tax revenues on both sides of the border.

This is all quite complex; it is really difficult to accurately get a handle on it. The Scottish Fiscal Commission has done quite a bit of work on the issue, and it has come up with the answer that, although one might mechanically expect to get about £180 million as a result of the changes, that figure is based on the assumption that there will be no behavioural change. It is likely that one will get only about £80 million.

The Convener: Yes. The figures in your paper are backed up by the Scottish Parliament information centre. For the highest rate, on

earnings over £125,140, it expects that the mechanical income would be £56 million but that, post-behavioural change, it would be only £8 million. For earnings of £75,000 up to £125,140, £144 million would be raised on paper, but only £74 million in reality. Do you recognise those figures?

João Sousa (Fraser of Allander Institute):

Yes. They broadly reflect the methodology that the Scottish Fiscal Commission uses to cost that. As I mentioned when I gave evidence to the committee before, where things will end up is very uncertain, but the forecast is based on what is essentially the best available evidence. The SFC has set that out transparently in its approach to forecasting income tax.

The figures are slightly higher than we thought they would be when we tried to cost things at the Fraser of Allander Institute. That is in large part because the Scottish Fiscal Commission has access to real-time information, which it uses to calibrate its model. That data turned out to be stronger. That means that the whole of the income tax system raises a bit more than we thought before.

The Convener: I want to go back to my first question, because you have not had an opportunity to answer it. It was about whether the budget delivers on the missions that the Scottish Government has set itself.

João Sousa: You can see how some public services have been protected—for example, health is growing more strongly than other areas—and how social security has been prioritised, as the rest of the panellists have mentioned. That has come at a cost. It is for the Scottish Government and the Scottish Parliament to assess whether that is a worthwhile cost. However, there is definitely a risk in managing a budget that includes what the UK Government would call annually managed expenditure. That would not have fixed limits, whereas the Scottish Government's budget has much more fixed limits, although there is some flex in terms of how much revenue it raises.

A question could reasonably and fairly be asked about whether some of the tax measures, as a whole, have been focused solely on equality. People who earn more have been asked to pay more through income tax, but a lot of people who live in quite valuable properties have not been asked to pay more council tax. In fact, relative to the consultation that was put out over the summer, they have been given quite a big cut compared with what they might have expected to pay. A whole other issue is whether the council tax system is fit for purpose and whether there should be a revaluation on that, because there is an implicit tax break for people who live in what are

desirable places now that were not so desirable in 1991.

There are some people who earn quite a lot who will see a net benefit from the budget and other people who will not. There is also a differential effect on families or households with one earner or two earners, for example. They might have the same combined earnings but see very different results from the changes, due to the fact that income tax is levied on a personal basis whereas council tax is levied on a household basis.

The Convener: When the Scottish Government has so few levers, how easy is it to take into account how many children there are in a family and all that kind of stuff?

João Sousa: I am not saying that that is particularly easy. That is why the decisions need to be taken after consideration of who they are targeted at and whether they fit with the intention of merging equality.

In relation to growth, I share the concern about low investment, which has been a problem for a long time. However, it is not easy to see how the Scottish Government could do loads about that within its current framework, other than decide how to allocate the capital budget. The Scottish Government is already using its borrowing powers quite a lot, and it has acquired some additional flexibilities through the fiscal framework review, but they do not come to a lot, and they change things only at the margin. In most years, the Scottish Government has borrowed quite a lot of the allowed limit of around £450 million.

The situation is a difficult one and, sadly, it potentially has some limiting effects in terms of economic growth, as investment and capital per worker is one of the big drivers of economic growth in the long run.

Professor Bell: I did not say anything much earlier about opportunity. The budget is not really a great budget as far as opportunity is concerned. The cuts to the enterprise agencies, which have already suffered fairly significant cuts, are not a good signal as far as inward investment is concerned. Surprisingly, Scotland's record on inward investment has held up. However, a UK Government agency has been collecting data on the net investment position, which is inward investment less outward investment—disinvestment—and, according to the most recent data, Scotland is not doing very well at all on that score.

As regards inward investment in the UK, inward investors tend to set up businesses that have higher productivity per worker than the average, and that has been a big driver of economic growth in the past. We are not seeing very significant

inward investment projects coming to Scotland at the moment.

The Convener: Chris Birt, in the second-last paragraph of your written submission, you said:

“Economic growth will not solve poverty—government decisions to facilitate poverty reduction will.”

Surely we need economic growth to generate revenue in order to invest in anti-poverty programmes.

Chris Birt: A strong economy—and potentially a growing economy—is vital to the health and wellbeing of the nation as a whole. The point that I made is that economic growth alone does not guarantee a reduction in poverty. For example, there was economic growth in the UK during the 1980s but, as we all know, poverty and inequality shot up over that period. The type of growth is crucial.

Sometimes we hear the argument that, if we generate economic growth in the economy, we will reduce poverty. We will not. We will generate revenues—hopefully more revenues—to support Government investment, which allows for opportunities such as those that we have seen in the past, with the introduction of the tax credit system, for example. Such measures reduce poverty, but those were Government choices; they were not a result of economic growth. That is the difference that I am trying to highlight.

The Convener: However, all else being equal, economic growth is a positive thing. Do you agree?

Chris Birt: Yes.

The Convener: What does João Sousa feel about economic growth in terms of poverty?

João Sousa: I agree with a lot of what Chris Birt has said. It is not necessarily guaranteed that economic growth reduces poverty. Relative poverty and income inequality can increase, and they do increase in some positive economic cycles. With more economic growth, you are more likely to have more resources to redistribute, and the choices become easier if you have a bigger pot from which to redistribute. It is for the Government to decide who it wants to focus its resources on.

The Convener: In terms of that—this will be my last question, and other witnesses can answer it as well—has the Scottish Government done enough in the budget to prioritise economic growth?

10:00

João Sousa: I would not say that the budget is particularly focused on growth. There is a lot in it about the choices to be made in a difficult financial

situation. The fact that the Scottish Government has to balance its budget means that, in many cases, it ends up running a procyclical policy. That means that, if your revenues are not as strong as you might expect them to be, you might have to cut your spending to balance the budget. That is not necessarily a great position to be in, and it is not how you would necessarily run a fiscal authority if you had the choice of how to design it. However, those are the constraints within which the powers of the Scottish Government and the Scottish Parliament exist.

Professor Bell: Ostensibly, it does not look like the budget particularly favours economic growth. Some previous budgets have been more pro-growth. However, it is a difficult issue, and it is where we need the Scottish Government to concentrate more on arguing the case. For example, the increase in the health budget might help people to get back to work. The disability payments that are being made through the social security budget might help people to get back into some form of employment or to contribute to the community in other ways.

I am happy to acknowledge that gross domestic product does not measure the welfare of the community and that lots of things that do good are not counted towards GDP. Nevertheless, with some of the extra spending, where it is not clear that it is linked to growth—as with the health spend, for example—we need a better case to be made, and that would have to be based on more information than is currently provided.

The Convener: Chris, what do you feel? You have been critical of the Scottish Government not increasing the Scottish child payment to £30 although, obviously, it is going up to £26.70. Both the Scottish National Party and the Labour Party promised in their manifestos that it would be £20 by 2026 and it is already going to go up this year to £26.70, which is much higher than it would have been if it had risen in line with inflation. How do you feel about that and about the issue of economic growth?

Chris Birt: I have said, and will continue to say, how important the Scottish child payment is. It is a vindication of the power and potential of the Scottish Parliament. Other things being equal, the payment should reduce child poverty by somewhere between 4 and 6 per cent—it is lifting tens of thousands of children out of poverty. However, it is worth reflecting on the context in which the payment is being made. For example, we have heard from a family who said that the child payment is brilliant because it means that they put the heating on when the kids get home from school. That is a good thing, but we should not live in a country where people are making

choices as to whether they put on the heating when the kids get back from school.

David Bell talked about the reasoning behind and the defence of such additional spending. Disability assistance spending is an interesting example. I totally get why the Scottish Government might have some frustration with the pressure that is coming on to it because, to a large extent, it is picking up a deficit that has been created by UK Government policy. For example, we know that a lot of the additional spending that is built into disability assistance payments is a result of Social Security Scotland making the process more accessible in the hope that more people will take up what they are eligible for. That is a good thing, but it is costing the Scottish Government a lot of money.

In the SFC projections, the cost of living crisis is seen as contributing towards that increase. When we talk about economic growth and the fundamental choices for us as a society, which I come on to at the end of my submission, I think that one of the fundamental weaknesses in our economy in this country is the levels of economic inactivity and levels of poverty among our population. We did a bit of work with IPPR and Save the Children last year, in which we looked at levels of unemployment, which are much higher among people who experienced poverty in their childhood. Therefore, by not reducing poverty, we are creating economic weaknesses in our society. As David Bell alluded to, the line between a pro-economic growth policy and a not-pro-economic growth policy is often a lot muddier than the debate would suggest.

Michelle Thomson (Falkirk East) (SNP): Good morning, panel. I have a couple of areas that I want to explore, but I will start with one of the principles that the convener outlined, which is the focus on a greener and growing economy. We have thus far asked quite a lot of questions about the growing element, but I want to get some views on the greener element of it, perhaps in particular the low focus on capex and what impact that will have on net zero goals and just transition. In other words, to what extent will this budget enable the greener element as well as the growing element—because obviously we have supply chain considerations—and to what extent will it not?

Professor Bell: To be honest, although, as David Bell pointed out, there are weaknesses in the argument that the budget has been designed to alleviate poverty, I think that poverty has been given a higher priority than the green aspects of the budget. That is partly driven by the capital budget that the Scottish Government has had to deal with, because a lot of the additional expenditure to move towards net zero is not resource spending but capital spending. There is

also the question of biodiversity, nature restoration and so on. The picture there is less buoyant than in other areas that we have already discussed, such as social security and health.

João Sousa: I have noticed a couple of things that were cut or heavily reduced in the capital budget, as David Bell mentioned, which include the just transition fund. It was expected to be £50 million a year but has been cut to £12 million for the coming year and is only for projects that have already started, as far as I understand from the not-so-easy-to-follow description on the right-hand side of a spreadsheet seven rows down on the budget page.

The Scottish forestry woodland grants have been cut by a lot, which is surprising. It is hard to tell exactly what the effect of that will be, but if it was thought to be a priority last year, I cannot see why it would not be this year.

Thinking about the link between skilling and green jobs in the future, I was particularly surprised by the permanent cut that has been made to the Scottish Funding Council, including for first-year university places.

As I think that you heard in evidence last month, the Institute for Fiscal Studies has talked about the fact that tuition is free in Scotland if you can get a place, but places are capped, whereas they are not capped elsewhere in the UK for students domiciled here. As far as I can tell, there is no detail on the figure by which places will be reduced, but the funding cut is 5 or 6 per cent in real terms, so you would expect that a non-trivial number of places might be cut. It is not just about university places, but college places, because funding for colleges has also been reduced. Training people for highly skilled occupations and green jobs in the future growing economy should be a priority and you have to think about whether the choices reveal that to be the case.

Michelle Thomson: Thank you. I suspect that my colleague Liz Smith will want to come in on that, as I know that education is an area of interest to her.

Chris Birt, a so-called just transition and the challenges of getting to net zero affect socioeconomic groupings differently. Are you concerned that the cuts to some of the spending on the ambition to get to net zero and enabling a just transition will affect people who are most in poverty or might help to push people into poverty over the longer term? If so, what are those concerns?

Chris Birt: That question is tied to my point about housing and prioritisation. As each of the witnesses has reflected, the capital budget is heavily constrained. When we consider

investments, we want to get the most targeted return for our investment.

To be frank, new housing, which is very energy efficient, is a good outcome for all sorts of reasons. It contributes to our climate targets and is cheaper for the households involved. We will always face high heating costs in Scotland because of where we are in the world. I hope that we will never again see the instability that we have seen in the energy market over the past couple of years, but we need to smooth off those bumps and make energy costs much more predictable for people.

In rural areas, we need to act quickly. The opportunity to tackle fuel poverty in rural areas in the transition to net zero is an obvious open goal for us. It seems obvious to me that we should target energy efficiency measures and the decarbonisation of heating within those areas, particularly for people who are off-grid or rely on heating fuels.

The mix of new energy-efficient homes is a good outcome for all sorts of different reasons, but how we target fuel-poor households is also important, particularly in rural areas.

Michelle Thomson: Professor Bell, were you surprised by the £60 million cut to the funding for the Scottish National Investment Bank? Obviously, we all want it to be regulated by the Financial Conduct Authority so that it can crowd in other sources of funding—we understand that—but what is your view on that £60 million cut and how it might impact on our net zero ambitions and other areas?

Professor Bell: That touches on the point that I made earlier and in my previous appearance at the committee on the role that the Scottish National Investment Bank can play in de-risking. In and of itself, the bank cannot push us directly towards net zero—we need private sector investment—and with the directive that it has to support investments in that policy area, the bank can support that kind of investment. I suspect that the cut might slow down more speculative investments in new technologies that could accelerate the move towards net zero. Perhaps there are alternative funding mechanisms, but thus far the Scottish National Investment Bank seems to be the one institution that is very clearly aimed at that particular issue.

10:15

Michelle Thomson: I want to move on to another area, although I appreciate that both the other panellists might have further comments on that one.

Dr Sousa, were you surprised by the allocation of money from ScotWind to resource expenditure? Would you ordinarily expect the Government to apply fiscal rules to that money?

João Sousa: I have to confess that I have not looked at that in detail, so I would rather not comment on it.

Michelle Thomson: Okay. Professor Bell?

Professor Bell: The ScotWind money can be thought of as equivalent to a sovereign wealth fund, and a sovereign wealth fund should be used to support future generations, because it is a sort of one-off payment. To be equitable, it should not be spent only on the generation that has been lucky enough to have that revenue gathered. However, as is the case with oil, in the British Isles there seems to be a willingness not to think in terms of those longer-term perspectives.

Michelle Thomson: Would you have expected fiscal rules to be applied to that, in effect?

Professor Bell: I would have thought that advisable.

Michelle Thomson: Thank you.

John Mason (Glasgow Shettleston) (SNP): I will start with Dr Sousa. In your written submission, you comment that the SFC is quite optimistic about Scottish earnings growth—more optimistic than the Office for Budget Responsibility. Are you convinced by the SFC's arguments?

João Sousa: There is definitely data regarding 2021-22 and 2022-23 that gives some indication that earnings in Scotland were growing more quickly. The question is whether that growth will be sustained. The SFC has anchored its judgment on the basis of the pre-2015-16 average and on there having been some catch-up of Scottish to UK average earnings.

I think that there is a real risk for the 2026-27 budget. That feels like it is a long time away. The budget will be laid before the next election, but it is about something that will happen after the next election, so it can feel like it is very far in the future. However, it can compound risks in terms of the reconciliations.

There is a reasonable argument that there might be some catch-up of earnings growth, but it is also, in my view, a reasonable argument that, if something has not happened on a sustained basis for seven or eight years, it might not happen that quickly. In that case, there is a real risk that the Scottish Government will face a worse reconciliation than it anticipated.

John Mason: Professor Bell, do you want to come in?

Professor Bell: In my submission, I point out that the April 2023 numbers on earnings show that they grew faster in Scotland than in any other part of the UK, but it is noted that that was partly due to public sector payments that had been made in advance in Scotland; that is, settlements had been made in Scotland that had not been made in England. It will be very interesting to see the April 2024 figures, which will give us the next accurate indication of where we are as far as earnings are concerned.

As João Sousa alluded to, income tax obviously depends on earnings, which generate income tax revenues over a period of time. Given that we do not know until maybe two years later what the exact figure is, reconciliations have to be made, which can come as very unwelcome surprises. It is interesting to think that that—

John Mason: Sorry to interrupt you. Does that mean that if the SFC was overoptimistic, by mistake or whatever, that would lead to a very negative reconciliation?

Professor Bell: Sure—absolutely. You are then very dependent on the accuracy of the SFC forecast. If you downgrade your view of that accuracy, you set aside funding or put in place plans about what you will do, should there be a very negative reconciliation. People need to be clear about that.

I will make one other point, which is not exactly what you asked about. The possibility of an income tax reduction in England in the next budget in March would potentially increase the behavioural effects. There would be gaps, because I understand that the First Minister has said that there would be no change in income tax in Scotland. That reduction in England would potentially increase the behavioural responses but also slow down the growth in income tax revenues in England relative to Scotland. The block grant adjustment would actually be smaller, which would be advantageous to the Scottish budget. We cannot exactly predict the outcome, but if that happened, the gaps in income tax rates would be greater than they already are.

John Mason: Mr Birt, if you want to comment on any of that, you can, but I was going to move on to the council tax freeze. I picked up that you are not all that enthusiastic about it. Does the council tax freeze aim to achieve a target that you are aware of, or does anything good come out of the council tax freeze?

Chris Birt: That is a good question. I get it—the bills that everybody is facing are going up. We all see it. Costs such as car insurance have shot through the roof. The idea of a bill not going up—the council tax bill is often totemic—will be a relief for a lot of people. Do not get me wrong; that is

absolutely the case. However, the difference that the freeze makes for almost every household concerned depends, as João Sousa referred to, on whether you take into account the potential changes to the bands, for example. The difference is fairly marginal. IPPR Scotland has said that it would not make any difference to poverty levels in Scotland and that seems right to me, but the revenue foregone could have been used for something different and we talked about the child payment being one of those things.

We have not talked about it yet, but we are still in the grips of a cost of living crisis. Yesterday, Citizens Advice Scotland talked about a quarter of a million people in Scotland using warm banks. Warm banks used to be just indoors; now, we have a situation in which communities have to come together to provide safe and warm spaces. It is brilliant that they do that, but the council tax freeze does not strike me as the right priority at this time.

John Mason: Do either of the other witnesses want to say what is a good thing that comes out of the council tax freeze?

João Sousa: I agree with Chris Birt. The people who benefit from it will clearly get something out of it, but is that worth the total cost? We must also think about the effect on council financing.

The point that we have been making ever since the freeze was announced is that in order to be able to say whether councils have been fully compensated or not, based on their behaviour in previous years, consideration needs to be given to what councils would have done otherwise. There are some councils, particularly those that are rural, that have higher costs in delivering some services. For example, Orkney increased council tax by 10 per cent in the previous year and it will get compensated for 5 per cent. It does not seem beyond a realistic level of possibility that it would have done the same this year or in the coming year, but it will not be compensated for that. However, some councils that might have increased council tax by less will gain from the measure. There is also the question of the multipliers.

Professor Bell: I find it difficult to justify the freezing of council tax, because, in general, it benefits better-off households. There are some households that are asset-rich—in terms of housing assets—and income poor that will benefit reasonably from the freeze. I would recommend that the Scottish Government wait at least until there is clarity around the political situation. The Royal Society of Edinburgh has produced a paper on council tax reform. Various Scottish Executives and Governments have dodged this bullet for quite a long time. Eventually, someone will pick it up. Sorry—that is a mixed metaphor.

John Mason: I will give you a chance to comment, Mr. Birt, but I want to touch on another area before my time runs out. The social security budget is increasing from about £5 billion to £6 billion, which is dramatically more than the budget for almost any other sector. Now, I know that it is demand driven, and we have been given evidence that it is therefore harder to control, but is there a risk that it is running out of control and we need to somehow tack it in? I will come to you first, Mr Birt, because you would like the budget to go even higher with respect to the Scottish child payment.

Chris Birt: It is important to separate the Scottish child payment from the adult disability payments, because they do very different things. The Scottish child payment is a means-tested support to families with children to reduce child poverty. The disability payments that replace the disability living allowance and personal independence payment system from down south do something entirely different. Before I go on, I want to say that anybody who thinks that disabled people in Scotland or across the UK are doing incredibly well out of the social security system and living great lives is having a laugh. Since the start of this millennium we have seen a deepening of poverty in the UK and in Scotland, and a big chunk of that has been among disabled people. Governments of all colours have acted to disadvantage disabled people within our society. That is the context within which we are working. As I alluded to earlier, the Scottish Government's reforms to the DLA-PIP system are entirely welcome in terms of ending the dehumanising approach. Members will have seen a trail of people coming to the Parliament who have been dehumanised by the DLA and PIP system. The fact that that has come to an end is a good thing—full stop. It is to the Scottish Government's credit that it took that approach.

Now, that means that demand for things that people are eligible for is going up because, hopefully, people are less scared to approach the Government for what they have a right to. The Scottish Parliament says that social security is an investment in our people and that people have a right to it. That is what we are seeing coming to fruition—or at least that is what the SFC is projecting. We also see the negative elements of broader poverty within our society, so we see the SFC projecting that anxiety, poor mental health and decline in physical health are driving people towards requiring such payments. But let us be clear, those payments are to cover the additional cost of being disabled. They do not even count towards poverty reduction because disabled people have other means, such as from work and other social security payments that support their income.

10:30

None of that should be a surprise to the Scottish Government. None of the uplift that you are talking about is a result of decisions that the Government has made in the past year; it is about the impact of the positive policy changes that the Government has made. It is not like the weather—it has not sprung on us from nowhere. It is about the positive impact of policy choices, which means difficult financial decisions and prioritisation. However, from my perspective, it is the right prioritisation.

John Mason: Professor Bell, you were nodding at some of that, but should I be worried about the ballooning social security budget?

Professor Bell: I agree with a lot of what Chris Birt said but, taking a step back, we need to ask why people need the support in the first place. I hark back to the Christie commission's discussion of the need for preventative intervention. It is about trying to avoid people getting into difficult situations. I do quite a lot of work on health, and I know that prevention is not an easy area to get into, but it would be better for society if fewer people needed the support. If the Government can invest in preventative interventions, it should seriously look at them because, as you say, the budget is increasing rapidly. There is also a crisis in mental health, which has come on us post-pandemic and does not appear to be going away as fast as the threat from Covid has gone away.

João Sousa: I agree with a lot of what has been said. I do not think that the budget increase should be described as “runaway”, because it has been projected and the term “runaway” almost implies a loss of control. I do not think there has been a loss of control. The increase has been projected for years by the Scottish Fiscal Commission and the Scottish Government has known about it and needs to consider the issue in its financial planning.

Chris Birt's point about governing being choosing is definitely true. Social security is a valid priority. It comes with financial consequences and the Government needs to consider that. The issue partly reflects something that we keep banging on about, which is the need for multiyear planning for a lot of these things. I get that that is difficult and that it might show that there are difficult decisions to be made in the future, which is not always pleasant. However, given that we have multiyear forecasts for social security spending from the SFC, it would be helpful to have multiyear plans that show what the gap is going forward. I know that that is done at an aggregate level in the medium-term financial strategy, but I would like it to be done at a lower level of planning, so that a better conversation can be had across Scottish society about what decisions will have to be made.

John Mason: Thank you.

Michael Marra (North East Scotland) (Lab): Since the budget was announced, the cuts to housing programmes have been commented on. The Fraser of Allander Institute has highlighted that in its work. The affordable housing supply programme is being cut by more than 30 per cent in real terms, on top of a cut of more than 10 per cent last year. The housing support and homelessness budget is down by 5 per cent, and the local government capital budget is down by more than 20 per cent, which is happening at a time when cities are declaring housing emergencies. Dr Sousa, could you pick up on the broader impact of that?

João Sousa: It is hard to see how the cuts to the house-building budget and affordable housing supply budget square with the Scottish Government's stated priority to increase the housing supply. There are other types of housing—the Government does not have to be involved in everything—but a lot of the housing supply that is needed is at the more affordable end of the spectrum. Housing of that kind will have more impact, as it will allow affordability to perpetuate through the system. It is difficult to square that circle. The convener mentioned that there are choices and difficult decisions to be made, but the cut to the affordable housing supply programme is a lot—it is 30 per cent in real terms and the total cut is 40-something per cent over two years.

Professor Bell: I wonder whether we are looking as broadly as we could at solutions as far as affordable housing is concerned. I completely agree that the cut to that budget is massive. Recently, I listened to a podcast about how productivity in the construction industry has been stagnant for decades. One of the solutions that, I think, the Irish Government—I could be wrong about which Government it was—has gone for is insisting that affordable housing is now all modular, so housing is built in factories rather than on site.

I work with Northwest 2045, which focuses on the west and north coasts of Sutherland, and we always spend our time talking about housing. The lack of affordable housing in rural areas contributes significantly to depopulation pressures in those areas.

Michael Marra: The convener highlighted the Government's three missions. One relates to community. Sustaining public services—particularly in rural areas—requires affordable housing; there is no doubt about that. The mission relating to opportunity is meant to be about a fair, green transition, and we have already heard about fuel efficiency, energy efficiency in housing and growth in the economy. There is also the equality

mission, which relates to poverty. The cuts will result in a comprehensive failure in all three missions, will they not?

Professor Bell: They will not do a lot for them.

Chris Birt: The convener was right to push me on the pressure that is on the capital budget. I would describe that pressure as baffling, because housing is the foundation for all of our lives. I am going to be a bit flowery about this: we all need to have somewhere to live that is safe, warm and connected; housing is right at the top of the hierarchy of needs.

The Scottish Government has a pretty good record on housing—its record is much better than those of Governments elsewhere in the UK—and that is to its credit. One of the big reactions to the previous downturn in 2010 was that we should focus capital funding on things such as building houses. That was a good decision, and it has meant that poverty rates across the UK have diverged a bit. Scotland's poverty rates tend to be lower than those in England and Wales. Northern Ireland is slightly different.

However, you cannot build houses overnight—unless they are, say, the modular kind. They need to be planned and put in the right places, and how you do all that will differ between rural and urban areas. When we pull back funding, we reduce predictability and the sector's ability to draw in private funding. Indeed, we are already seeing an enormous slowdown in completions of and approvals for affordable housing. It sends the wrong message to investors.

Fundamentally, housing is a protection from poverty in a cost sense. If your rent or mortgage is not too high, you will have more income. The Scottish Government might be investing whatever it is—£450 million, I think—in the Scottish child payment, but if your rent is going up, you will prioritise keeping a roof over your head, and that means the family going short in other things. As you have said, this approach provides the opportunity—or the potential—to contribute to all of the aims that the Scottish Government has rightly prioritised. That is why the cut is so difficult to defend.

Michael Marra: It just feels very short term to me. You have described previous long-term decisions about poverty and the health of the country, but it feels that much in this budget is about dealing with immediate threats instead of thinking about the long term.

I see you nodding, Professor Bell. Is that your assumption, too?

Professor Bell: The autumn statement on the one hand and the Scottish budget on the other have not been fiscal events for future generations.

Michael Marra: That applies to both Governments.

Professor Bell: That is right.

Michael Marra: Do you want to respond, Dr Sousa?

João Sousa: It is the shortfall in council budgets relative to plans that has led to the prioritisation that has happened. I agree that the autumn statement was not brilliant for future generations, and a lot of things in the planned departmental expenditure limits, including the allocation for Scotland, are very constrained and have been pencilled in to meet the fiscal targets that the chancellor has set. However, the Scottish Government was already not on track to fulfil all of its capital plans in the medium-term financial strategy—there was already a £0.5 billion gap. This is not all coming just from the autumn statement.

Chris Birt: I would not necessarily say that the approach is entirely short-termist. The Scottish Government has to balance its budget, and it got scrambled at the end of the year—the autumn statement was very late—with the Scottish budget coming on Christmas day or whenever it was. Everything has had to be squeezed in at the last minute; indeed, it feels as though the cabinet secretary has had to have arguments in order to balance the budget. I do not for a second think that anybody in the Scottish Government will take any pleasure from the cut to the housing budget.

However, there is something that has not happened. At the moment, we are using CaCHE—the UK Collaborative Centre for Housing Excellence—for a project that looks at the affordable housing supply programme and how we get the most return for that investment with regard to poverty reduction. Those are the kinds of questions that have to be asked. The Scottish Government could have said, “Look, the broader conditions in the housing sector are such that, in this financial year, our investment could be less, and we could focus that investment, say, on rural affordability issues instead.” However, that is not what we are hearing. It feels as though we are having to squeeze in under a budget line.

Michael Marra: I know that, in the past, the Joseph Rowntree Foundation has been very keen on the parental employability support fund, but the social security secretary has said:

“I am afraid that the ... fund has just run its course as a concept.”—[*Official Report, Social Justice and Social Security Committee*, 14 September 2023; c 14.]

Do you have any reflections on that?

Chris Birt: This is why I am a bit worried about “Best Start, Bright Futures”, the tackling child poverty plan. There was a lot of focus—rightly

so—on supporting more parents into work. One of the solutions in that respect was the parental employability support fund, which, initially, focused on up-front childcare costs, after the UK Government’s welcome decision to allow more people to get those costs covered through the universal credit system. However, when that money was, in essence, not spent, it was reprioritised for something else—the fuel insecurity fund, I think, which has now been cut.

10:45

My worry is not that there are not things in the budget that protect people from poverty. The Scottish Government has already committed to and announced things such as the Scottish child payment that absolutely protect people from poverty. My worry is that the things that were designed to push us towards the child poverty reduction targets, such as the parental employability support fund, have now gone.

Michael Marra: That is not what the cabinet secretary said; she told the Social Justice and Social Security Committee that the fund had

“run its course as a concept.”

It was as though she was saying that it was a failed concept, so there was not a choice. Is that your view? Did the parental employability support fund fail as a concept?

Chris Birt: As I understand it, the way in which the fund was designed was such that, when the UK Government was asked, it said that it would treat payments from the fund as income, which meant that the fund could not be provided in a particular way. However, could the Scottish Government have spent that money in other ways that would have supported more parents to get into work? Yes, of course it could.

Michael Marra: Yesterday, the First Minister made a speech about the economy and the different choices that he would want to make. He said that if he could marshal £2 billion of capital funding annually—£20 billion over 10 years—he could deliver growth levels similar to those that China experienced in the 1990s. Professor Bell, do you think that that is realistic?

Professor Bell: It would be good to be able to spend significant amounts of capital funding. One issue is that, when China developed, it had an unlimited labour resource at very low cost. That situation is not replicated here. In addition, China had a very supportive infrastructure. There was a huge amount of directed investment, as opposed to infrastructure that was developed through a market system, around the country. Therefore, I think that the situation in Scotland now is very different from the situation in China then.

If I were thinking about what Scotland could do, my comparator would not be China. Timescales tend to be very difficult to pin down, and they often turn out to be much longer than people expect them to be.

Michael Marra: We have highlighted the cut to capital spending that is made in the budget—it is a cut of some £400 million. [*Interruption.*] The exact figure is £484 million—thank you for that, convener. The First Minister was talking about spending four times that amount. Is it realistic to say that, if we put that money back and added three times that amount, we could produce double-digit growth rates in Scotland? Is that realistic, Dr Sousa? If that would be possible, that is something that the committee might want to recommend. Could we find that money and achieve 10 per cent growth in Scotland?

The Convener: China's economy is growing at only 3.3 per cent.

Michael Marra: That was not the case in the 1990s, when China had double-digit growth rates, which is what the First Minister's comparison was with. That is what would be required to raise the level of income in this country to the level that the First Minister has suggested.

João Sousa: I will not go into the comparators, but I will say that Scotland is already a high-income country. It is true that emerging economies have had a lot of catch-up growth in the short run or even over very long periods of time, but we have already had such growth many years ago over longer periods of time. If we look at growth historically, we can see that we have already had a lot of it.

It would be nice if we could grow the economy at a rate of 2.5 per cent rather than 1.4 per cent. That would be a great outcome—it would be transformative if we could grow the economy by 2.5 per cent every year.

Michael Marra: Chris Birt, do you have any thoughts on that?

Chris Birt: We need more capital investment. Structurally, the UK has underinvested in stuff for years. I will leave it to the learned economists to say how we should go about addressing that.

João Sousa: Scotland's investment as a share of GDP is lower than the UK average, so Scotland could benefit from having more investment and might have some catching up to do in that regard in terms of GDP. However, we are not talking about a double-digit catch-up.

The Convener: It would depend on what we spent it on, too.

Liz Smith (Mid Scotland and Fife) (Con): I will concentrate on economic inactivity which, as has

rightly been said this morning, affects not only economic growth but wellbeing. I firmly believe that we have to address that situation in Scotland, so that economic activity is reduced.

What do you each feel about the comments that have been made within the business and industry sectors following the budget—that the budget has not done enough to address concerns about inactivity or to stimulate growth in the areas with the higher-paid jobs? What are your reflections on that?

Professor Bell: One thing about the budget that is a bit concerning is the effect on colleges. We are not good at retraining people who have become inactive, for whatever reason, to rejoin the labour market. Colleges can play a hugely positive role in that respect.

As well as the educational aspect, there is the health aspect. Is inactivity down to reasons of poor health? It is important to understand the processes that are involved, and I have already referenced the set of issues around mental health. Unfortunately, my fallback position in considering the statistics in this area is to point out that the reputation of the labour force survey has been tarnished over the past little while, so the extent of inactivity is not really clear, especially among older people. It was thought to be almost an epidemic following the Covid pandemic. We are not entirely sure about that. Clearly, however, the business sector is observing the situation.

Liz Smith: That point about whether we have sufficiently accurate data on the reasons why people are inactive is a very interesting one. Do you think that there is a gap in the data? What do we have to do? If we do not have the right data, it is obviously very difficult to address the policy concerns.

Professor Bell: Sure. The labour force survey has traditionally given people a list of possible reasons why they did not want to engage with the labour market. It is not so much that those options do not cover all the possible reasons. Although mental health used to be a small segment, for instance, it is now a very large segment, and it might be necessary to fine-tune the options within that area.

The main problem has been that the sample size of the labour force survey has halved over the years, and there is a question around how representative it is and how to weight it. Administrative data, such as data from His Majesty's Revenue and Customs, seemed to be telling a different story from what the labour force survey was saying. I think that the Office for National Statistics will be addressing that problem during this year, possibly with a revised version.

For all those things, if you want to take effective policy action, you must base it on accurate data.

João Sousa: On the point about the labour force survey, no sub-UK data has been published by the ONS, which is because the survey has had such a low response rate as a whole, so it cannot really be relied on for UK-wide numbers, let alone for sub-UK results. We do not really know the level of inactivity in Scotland. We barely even know it at a UK level. We are expecting the ONS to provide data that is based on what is called the transformed labour force survey from, I believe, March onwards. The ONS was doing testing of that survey alongside the existing labour force survey, but the fact that the existing one is not fit for purpose means that we do not really know how comparable the estimates of the new survey will be to the old one.

Professor Bell: Yesterday a Finnish colleague put it to me that we should stop basing our data on regular surveys and have a register, as they do in Scandinavia—all the Scandinavian countries have registers. In effect, we do have a register—the community health index, through which everyone has an NHS number. If we added a little bit more data to that register, we would have a much more up-to-date and regular picture.

Liz Smith: For clarity, do you think that the ONS is doing something about that issue? It is quite serious if we do not have the right information.

Professor Bell: Yes, absolutely.

Liz Smith: In order to make Scotland a more attractive place in which to live, work and invest, on what policies in the budget area that is available to Scotland do you think the priority should be put? Professor Bell, you were very clear in your article on, I think, 20 December—immediately after the budget was published—and also this morning that you do not think that the budget has prioritised growth enough. What policies would you like to see?

Professor Bell: We have all alluded to the difficulties of it, but the capital budget has to be a starting point for that, and, I have to say, so does the relevance of skills. We have talked about the Scottish National Investment Bank, and we have to have a facilitating environment for business investment. Otherwise, we do not grow incomes, and if we do not grow incomes, we cannot pay for social security, and the consequences in the long run are difficult.

Chris Birt: I will slightly reverse to the issue of economic inactivity. Obviously, if people are going to invest here, they want access to a healthy labour market. At the moment, we are making it awfully difficult for people who are in that situation. We have fairly miserly social security support and, as David Bell has alluded to, mental health

support, which we hear all the time is part of a structural issue that explains why people are in poverty and are often locked out of the labour market. That support just is not there. NHS waiting times contribute to that, too.

Part of the issue is also about employers. In a tight labour market, employers need to be able to show more flexibility, particularly for disabled people and parents. This is not a simple issue. There is not a Government fix to this; nor is it just on business. We need to see more partnership between them to work around people to help them into work. Having ease of access to the labour market for people coming into work is a benefit to both sides of the coin.

Liz Smith: Do you think that there is sufficient understanding about the skills issue? Do employers know enough about where the problems are with the skills agenda? Is there good knowledge of that within business?

Chris Birt: These words are difficult to say, so excuse me if I trip over them. We often put a lot of focus on employability, which puts the focus on the individual, rather than employer ability, and I think that we probably need a bit of both. Employers need to understand more about the practical barriers that people face in getting into work or getting the skills that you are talking about. Employers need to know more about that, individuals need to know more about how to access the services that are available in their areas, and those services need to be responsive to both individual and business needs.

Liz Smith: The Scottish Government is cutting the budget for employability by £30 million in cash terms. Do you think that the employability budget has to be separated into bits on awareness for employers and for employees?

Chris Birt: At the moment, some of the best employability services in Scotland are provided by the third sector. The reason for that is that third sector organisations understand the people who they support, the communities in which they serve and the businesses that are part of those communities. It is hard to know what the Scottish Government is spending on employability, to be honest, but it could really do with someone taking a deep breath, pausing and focusing on that level of support rather than on what we have just now, but that is a concern, yes.

11:00

Professor Bell: I would go along with that point about the contribution of the third sector. Of course, the third sector is less apparent in rural areas, especially the remote areas, for understandable reasons. I alluded to Sutherland earlier—I keep hearing about housing, but then I

hear about childcare as the next issue. Employers need to engage with the issue of childcare as well.

Liz Smith: Dr Sousa, you and other witnesses have mentioned the importance of the college sector. I want to ask about the cut to the Scottish Funding Council and the possible ramifications of that. The college and university sectors are critical to developing Scotland—they are critical to economic growth, apart from anything else, and to making the best use of the assets that we have. How critical do you think that funding cut is?

João Sousa: The first time that I saw this was in a letter to you about the 2023-24 cut and the subsequent cut in future years. I think that it transpired from looking again at the level 4 tables. I am surprised that that decision has been taken, given that skills are such an important thing: they can have long-term ramifications and they are an investment in human capital, essentially, even if they come out of the resource budget in most cases.

David Bell in particular mentioned the retraining element, which is key for industries that might no longer be viable in the long term and whose employees will be required to train to do something else; it also staves off the threat of inactivity among people who have been employed for a long time and who have built up capital in a particular industry. If we are training fewer people in areas that we might want to focus on, that is a concern, in my opinion.

Ross Greer (West Scotland) (Green): I would like to go back to the convener's original line of questioning. Collectively, what we have heard so far this morning are arguments that the budget does not prioritise economic growth enough, it does not prioritise tackling poverty enough and it does not prioritise reaching our net zero targets enough. There is specific criticism of the lack of funding for skills and training, university places, affordable housing, the Scottish child payment, enterprise agencies, the Scottish National Investment Bank and so on. There is also scepticism about tax rises to raise additional revenue.

However, is that not the problem? It is easy to identify what the budget does not do, but there is little in the way of solutions to that. To be fair, Chris Birt identified almost straight away that the money for the council tax freeze could instead have been spent on increasing the Scottish child payment. My criticism of the council tax freeze is on the record, and I would agree with him on that.

However, cumulatively, the Government went into this with a £1.5 billion gap, and what I have not yet heard this morning is a clear identification of where the Government is spending money on the wrong things and what could be reprioritised to

fill all the gaps that you have all quite fairly identified. I think that there is a consensus that we should spend more money on all those areas, but the point is that there is not more money. What I have not yet heard this morning is an identification of where that money could come from, especially if it is not going to come from pretty swingeing tax rises.

Professor Bell: My argument would be that those decisions are political decisions, but they should be made in an informed way. Circumstances have not been ideal, given the timetable of everything in the autumn. Nevertheless, the medium-term financial strategy pointed out that there was an issue and, in essence, rather than making those decisions at what appeared to be the last minute, things could have been done in a more considered way. I agree that there was not enough money, and that there was no way of inventing additional money. However, my point is that we have to be in a situation in which there are plans in place to deal with sudden shocks. Reconciliations could easily cost us £1 billion. We all say that the view should be long term, but we also have to take a more considered view so that, if something bad happens in the overall budget, people have an understanding of how decisions will to be made.

João Sousa: I agree with a lot of that. My point in highlighting a lot of those areas was not to say that the Government should not have done what it did—it is not my place, or the institute's place, to do that—but to highlight the things that are left unsaid by the budget statement, which the committee should consider and then query with the Cabinet Secretary for Finance. For example, the committee could ask how she would square the statement with the Government's priorities. There are arguments for doing a lot of the things that were done. We have all criticised the council tax freeze, in particular, but there are arguments for all the other things. However, it is important to highlight the trade-off that is implied by what has been done.

The other thing is that the medium-term financial strategy came out in May. We all know that a projected shortfall cannot happen, and therefore we knew roughly—in the absence of anything else—how much the axe was going to fall, and then it was a question of where. There are six months between the medium-term financial strategy and the budget, so, although the autumn statement is really close to the budget, the medium-term financial strategy is not.

Chris Birt: The final choices that were made in the budget were surely not the only possible choices; as David Bell said, there are political decisions laced within it. During the couple of

weeks that we have had to look at the budget, we have not had the time to study that in detail.

However, your point is fundamental, and it comes back to something that Michael Marra asked. The Parliament has set targets for having very low poverty in Scotland, and much lower carbon emissions—and quite rightly. That is good, and that ambition is shared by all the politicians here. However, we need to do more to get there. We cannot sit here and say that we have spent all the money so we are stuck; we are not stuck, but we have to do things and we have to change things. As I said, maybe we have to change how we target funding for the housing supply programme to impact on costs and poverty.

Council tax is a very obvious way of doing that. We have talked about council tax reform for years, and everybody has dodged it. Let us stop dodging it. We have greatly expanded the availability of childcare, which is good and it is needed, but if we are going to keep going, we probably need to have a debate about how we are going to pay for that. It does not necessarily need to be tax—are there contribution systems that we could use? It is the same in social care. Mental health support is fundamental.

Those are all things that you would nod at and agree with, but we are not having the debate about how we as a society say, “This is what we expect from our Government and our public sector, and this is how we are going to collectively contribute towards it.” If we accept today that we are stuck, the ambitions of this Parliament will not be achieved.

Ross Greer: That was a very pertinent point. The challenge, perhaps, is that, although it is well within the Parliament’s power to legislate for targets, we are limited in the range of powers that we have to reach them. You are right, though, that we have not fully utilised those things.

I just want to touch on a couple of specifics and, first of all, go back to the discussion that we had early on about income tax changes and the splitting of the higher rate. My first question is for David Bell. Is it not somewhat strange to have a higher rate that applies between £45,000 and £125,000? Is that not a massive range to be taxing at the same rate? I acknowledge that the withdrawal of the personal allowance from £100,000 obviously has an effect, but even in European terms, is it not somewhat unusual to have such a big range covered by one rate?

Professor Bell: You are probably right. I refer to them in my paper, but I was just looking at the OECD schedules in other countries, and Belgium, I think, really ramps up the rate with every €10,000 or something like that. I think that that is what you mean.

Ross Greer: Yes.

Professor Bell: A quick scan of the OECD’s income tax schedules suggests that, in general, the gaps are not as big as the £45,000 to £125,000 range. However, although this might be an issue with the UK income tax system, I would also point out the massive issue of the interaction between income tax and national insurance. There is also the removal of the personal allowance, which I think was introduced by the Labour Government. That, too, is an issue, because, all of a sudden, there is a stratospheric marginal rate that is copied in no other country.

There is a case to be made for reviewing income tax and national insurance together, but it is complicated by the fact that, in Wales and Scotland, income tax bands and rates are devolved, and, in turn, by the fact that the systems in Scotland and Wales are different, too. The whole thing is a bit of a mess.

João Sousa: Prior to the budget, we did some work on this, particularly on the distortion with regard to the marginal rates of income tax between £43,000 to £50,000. At that point, there is, as Professor Bell has said, an interaction with national insurance, with people paying the higher rate of national insurance rather than the 2 per cent rate.

I prefer to focus on that matter, because it is easier for the Scottish Government and the Scottish Parliament to do something about it, and I know that it raises a lot of money; indeed, I think that we have estimated that not raising the threshold raises about £600 million a year. We looked at whether something could be done to rates to bring in roughly the same amount of revenue while removing that kink in the system. In fact, such a move would increase progressivity, because it would mean that employees earning £45,000 would pay lower rates than those earning £55,000. Surely that is what a progressive system should be doing.

Ross Greer: I am jumping around somewhat, but I want to go back to Chris Birt’s earlier points about capital funding for affordable housing and his highlighting of the roads budget as an area that could be reprioritised. If you listen to my Conservative colleagues, apparently my party has already done that, because the roads budget has gone down significantly. In fact, it is up this year, but that is due to the exception of an amount of money for the A9. I am not enthusiastic about that, but it is a small amount and it is mostly for safety-critical infrastructure.

Does that, though, not raise a wider point with regard to affordable housing? Nobody would defend the budget going down by £196 million or thereabouts as a good outcome of the process.

However, affordable housing is an area of capital spend where other policy levers are available. For example, there has been an emergency rent freeze and cap; there are eviction protections; there are permanent rent controls coming in; and there is regulation of short-term lets—which should, it is hoped, free up more housing—and the doubling of council tax on holiday homes.

11:15

In other areas of capital spend, however, there is no legislative policy alternative to reach the same eventual outcomes. As David Bell pointed out, net zero targets cannot really be achieved in any way other than hitting capital spend. As much as the decision on affordable housing is unpleasant, therefore, and nobody is saying that it is a good outcome, there are, in the limited context of devolution, other levers that the Government can pull, and other options to meet our ambitions for housing, excluding capital spend. Is that correct?

Chris Birt: I live just off the A9, so I will stop my comments on roads there. Obviously, capital investment in housing is not the only choice, although I note that the homelessness support budget seems to have gone down a bit as well. The fundamental issue that currently exists in our housing system is a lack of supply. That is why we need rent caps and controls. We need more affordable housing, full stop. If we can find different ways to do that, that is grand, but we do not have those yet.

Ross Greer: On the point about other options, there is a lot of other money out there. The most obvious example, in my view, would be public sector pension funds, which invest billions of pounds in all sorts of stuff all the time, but very little in public infrastructure such as affordable housing. That is not a criticism—there is no set-up to connect those funds with that area, despite the fact that they have billions of pounds to put in—but it shows that there probably are other options that we could explore to get more money into areas such as affordable housing. Pension funds are just one example.

João Sousa: With supply constraints in housing, there can be some benefit in a direct approach. There is always some leakage in incentivising measures to release supply, whereas a more direct approach, on the other hand, would be to intervene and create that supply. There is a decision, and an assessment, to be made on the Government side as to which of those approaches is preferable and what the overall leakage would be.

Secondly, it would be helpful to spell out the direction more. It does not feel that there is a lot in

this budget to address the housing supply. There is no joined-up thinking about what we are doing overall in that area. It feels as though the affordable housing budget was cut because something had to be cut—

Ross Greer: To make the numbers add up.

João Sousa: It feels as though affordable housing is seen as something that can be paused because new things are being brought online. That is not necessarily the best way in which to make such decisions.

Ross Greer: I have taken up quite a lot of time, convener. Do I have time for one more question?

The Convener: Of course.

Ross Greer: I go back to David Bell's point about attracting investment and the cuts to the enterprise agencies, although this question might be too specific. Are the enterprise agencies necessarily the best place for us to put money in order to attract investment? I am thinking of the coverage, over the past couple of days, of the incredible success of our film and TV sector, which, I would argue, is driven largely by the fact that responsibility for state support for that sector has been taken away from the enterprise agencies and given to a bespoke unit in Creative Scotland: the new, or new-ish, Screen Scotland.

Has Scottish Enterprise, in particular—given that Highlands and Islands Enterprise and South of Scotland Enterprise are different, and have a justifiable return—really been able to demonstrate that the spend that we put into it has resulted in increased investment?

David Bell pointed out that spend on Scottish Enterprise has actually gone down at the same time as foreign direct investment in Scotland has gone up.

Professor Bell: That is a very reasonable question. I have not looked at the recent data, but there was a time when Scottish Enterprise, or its predecessor, was doing very well in attracting what were, effectively, the companies that formed silicon glen. However, the nature of the world has changed a lot since then. We are, in effect, a service economy; we are not a manufacturing economy. Therefore, a lot of the areas where we want to attract investment do not necessarily lead to huge requirements for concrete and buildings in general.

I am open to the idea that industry-specific areas may or may not do better. VisitScotland, for example, is clearly an important potential agent for supporting a key industry for Scotland. However, I do not think that the enterprise agencies are unaware of all that. You have raised a very fair question, but I do not think that the cuts were

demonstrably made on the basis of an assessment that the agencies were doing badly.

Ross Greer: That goes back to the point that João Sousa made about affordable housing. If we had made decisions in every portfolio area purely on the basis of what would generate the best long-term return in that area, we would almost certainly have ended up with a budget that did not add up. Ultimately, the budget had to add up one way or another.

Jamie Halcro Johnston (Highlands and Islands) (Con): Good morning to the panel. I was going to ask questions on economic growth, but we have covered that fairly well.

Very briefly, on the point that Ross Greer and others have raised, is there clarity from the Scottish Government on what this budget is trying to achieve? Has the Scottish Government explained its direction and ambitions? Where it has made cuts, has it explained why that was a priority in one year, but not this year? Mr Sousa talked about some of the inconsistencies, particularly around woodland grants. Is there enough of an explanation from the Scottish Government as to why some of those decisions have been made?

I will go to Professor Bell first.

Professor Bell: The budget was necessarily made in haste, as it often is. We have had a lot of discussions about short-termism, and a lot of that has to do with the budget process. I have discussed the budget process for decades now, and it still seems to be a very compressed affair.

I think back to things such as the national strategy for economic transformation and how the budget links up to that. It is not very clear to me how it does, so that is a sort of growth prerogative. There is, of course, a set of other issues, such as the social justice area, but I do not see a narrative that says how that has all been added into the budgetary process, or that a clear narrative has come out of it.

Chris Birt: I will hark back to something that João Sousa said. Housing is a good example. I am never going to sit here and tell you that cutting the housing capital budget was a good thing, but if the Scottish Government was to say, “Look, we are under incredible pressure this year, so we have reduced capital funding for housing but we have an ambition for later”—again, multiyear planning—we could discuss that. However, the Scottish Government could perhaps say: “That cut was because, this year, we are going to do this, this and this to meet these longer-term outcomes, with this aim”. There was, for example, a plan to spend £3.6 billion on building social housing in this session of Parliament—has that gone? It looks that way, but we are not having that discussion. I

understand that it would be an awkward political discussion, but it would be much harder for me to sit here and say that the housing situation looks like a big problem if we were instead discussing the fact that, although the Scottish Government has reduced the budget, it is going to target other specific things. That would be a more productive discussion.

Jamie Halcro Johnston: Is that the case in the areas both where there are cuts and where there have been increases in investment? Is the Scottish Government better at saying, “This is what we want to do and we are putting money into this” than it is at justifying where cuts are made?

Chris Birt: Perhaps that is fair. I have not thought about it in great detail, to be honest, but there is something about being intentional and saying where it will spend money and why. On mental health support, for instance, it should be possible to say, “We don’t have the funds to spend lots of money on both mental health support and employability support, but we hear from people all the time about the mental health struggles that they face, so we will prioritise investment in that.” That is the kind of choice that the Government has to make, and I do not feel that it gets that balance right—saying that it is positively going to do one thing and, for that reason, it will not do another thing.

João Sousa: Budget documents do not necessarily contain loads of different measures. The Government weaves a narrative together to explain why it has done what it has done, and it makes decisions based on priorities. It is easier to highlight the things that are priorities, and I understand why that would be the case. As Chris Birt has said, however, that is why we come here as a panel—to highlight all the things that have been left unspoken in the budget.

One thing that I think makes something stronger, rather than weaker, is to acknowledge the trade-offs, bringing things together in a coherent way, so that people can understand how decisions have been made and how things that might cut across different portfolios come together to form one direction of travel in a particular area. Different portfolios can have responsibility for things that cut across them. Employability might come under fair work and the wellbeing economy, whereas mental health will come under health, although those things can be related and it is important to understand how they interact when making decisions about which one to prioritise.

Jamie Halcro Johnston: I am a Highlands and Islands MSP, so I represent a huge part of rural Scotland. We have talked about housing in rural areas and about the importance of delivering health services—which are more expensive in such areas—as well as local public services,

transport and so on. We have also talked about council services in Orkney, and the fact that my council tax bill will be going up. Perhaps starting with Mr Sousa, could the witnesses give me their thoughts on the impact in rural Scotland? Do you have any particular comments or concerns on that, given the difficulties that sometimes arise in delivering services there?

João Sousa: We know that some of the geographical challenges mean that things are harder to deliver consistently across councils. I am concerned about the blanket approach to the council tax compensation, which could have unintended consequences across councils. There are also issues around some opportunities. I spoke earlier about woodland grants and so on. A lot of the projects that rely on Scotland's geography may be less at the front of people's minds when they are being decided on, but they can have important consequences for net zero targets and so on. It will be important to think about such questions when it comes to the priority of a growing and greener economy that we spoke about earlier.

Chris Birt: I will highlight the issue of housing. I should just declare an interest, as I am a member of the Aberfeldy Development Trust, and we do work on affordable housing in rural areas as well. Housing is key, as it glues everything together. There are of course concerns around its affordability, as well as about the seasonal element of work and how that interacts with people's rents. There is also the question of how businesses are able to flourish and to have employees of working age living in rural areas. It was welcome that an element of the affordable housing supply programme focused on rural homes, and any contraction of that would be a concern.

Jamie Halcro Johnston: We know that too many of the people living in our island communities, particularly in Skye and in Orkney, are living in substandard accommodation. There is such a shortage of accommodation that people who want to live and work in such areas cannot live and work there. That is a really important issue.

11:30

Professor Bell: I am from the Highlands, too. I pointed out in my written submission that the rural affairs, land reform and islands resource budget has fallen by about 13 per cent. Issues such as depopulation—which relates back to housing—childcare and fuel poverty are all big concerns.

One thing that has not been mentioned so far is support for agriculture, which has fallen considerably in real terms. That is tough for

crofters, who receive a higher proportion of their income from the state as compared with arable farmers. The budget poses a particular challenge in areas such as the Highlands, which do not get the benefits of additional funding that the islands do.

Jamie Halcro Johnston: As you mention that, I must obviously declare an interest as a partner in a farming business—but I think that your point is absolutely valid.

The Convener: I thank our witnesses. We have overrun our time considerably, because of the interesting questions that were asked and the very interesting responses that we received. I would normally ask the witnesses if they have any final points to make, but we do not have time for that. I therefore simply thank you, and we will now take a break until 11.35, when we will hear from our next panel.

11:31

Meeting suspended.

11:35

On resuming—

The Convener: For the second part of our evidence session on scrutiny of the Scottish budget for 2024-25, I welcome Richard Robinson, senior manager, performance audit and best value, Audit Scotland; Dr Jenny Peachey, senior policy advocate, Carnegie UK; Shona Struthers, chief executive officer, Colleges Scotland; Stacey Dingwall, head of policy and external affairs in Scotland, Federation of Small Businesses; Martin Booth, executive director of finance, Glasgow City Council; Keir Greenaway, senior organiser for public services, GMB Scotland; Francesca Osowska, chief executive, NatureScot; and Kirsten Hogg, head of policy and research, Scottish Council for Voluntary Organisations.

This is not going to be a case of me asking you all a load of questions. I will ask just one question to start with, which is for Stacey Dingwall first of all, after which people can come in with any comments either on what Stacey has said or to take the discussion in a different direction. We will not go through this with some kind of stultified theme approach; people can come in when they so wish on the issues that they wish to comment on. If we get stuck, I will drag somebody in to keep things moving.

Let us fire away. The first question is about something that we did not really touch on during the evidence session with the first panel of witnesses. The Deputy First Minister told the chamber that prioritising health spending has meant that the Government is less able to support

the business sector. Stacey, what is the Federation of Small Businesses' view on that?

Stacey Dingwall (Federation of Small Businesses): The previous panel of witnesses talked a lot about making choices, and when we heard that during the budget statement, our reaction was that those choices are perhaps not that binary. Choosing to do one thing does not mean that you cannot do both things. We make choices. I am not saying that these are bad decisions, but we talked a lot about the fact that we choose to keep offering non-means-tested benefits, such as free prescriptions to everyone in Scotland, but we also want to do other things.

The previous panel touched on the idea that we need to ask whether, if we want to do a new thing, we can keep doing what we have been doing. We all have to make choices such as that in our daily budgets: if I want to do this, I will have to stop doing that. Therefore, our reaction was that the situation is not that binary.

For instance, one of our big asks was about passing on to retail, hospitality and leisure the 75 per cent rates relief that the UK Government has extended until March 2025. Relief has not been available to those businesses in Scotland since July 2022, I believe. The Barnett consequential of that UK relief were calculated to be £230 million, and the Fraser of Allander Institute, looking at the valuation roll for this year, has calculated that it would cost the Scottish Government about £360 million to replicate that in Scotland. That is because the different rates relief systems are not comparable; they have different complexities. However, the Welsh Government chose to pass on 40 per cent relief to such businesses in Wales until March 2025.

Because the systems are different and because those businesses get other reliefs in Scotland, such as the small business bonus scheme, which offers a lot of benefits, particularly to our members, we looked at whether, if it was not possible to pass on the 75 per cent relief, the Scottish Government could have replicated something like the 40 per cent relief that is being passed on Wales.

The Convener: I suppose that the issue for the Scottish Government is where it could find the proportion of the £360 million. It already gives £685 million in non-domestic rates relief. Indeed—I am a member who represents islands—it increased rates relief for businesses on Scottish islands to 100 per cent, up to £110,000.

John Mason: Yesterday, I met representatives of the hospitality sector. Some businesses in the sector are very profitable and do not need support, whereas some are struggling and need support. Given that you were arguing that, for example,

prescriptions should be targeted, do you not think that any support for businesses needs to be targeted for those that need it?

Stacey Dingwall: Yes, absolutely. I know that the hospitality sector has a big ask to look at introducing a specific rate for hospitality businesses.

John Mason: Is that for all hospitality businesses?

Stacey Dingwall: I would say that support has to be targeted—you are correct about that. The new deal for business group, which I am part of, is looking at rates reform. We have not had time to get into much detail, but I would expect that we would look at the issue as that group's work continues.

Jamie Halcro Johnston: Obviously, the 75 per cent rates relief is also for retail. We have all seen, and it is becoming more noticeable, that more and more business spaces are becoming available on our high streets. I was speaking to some local businesspeople about the increases in their rents, which have gone up from around £12,000 to £18,000 for new leases. If increased support is not given to those retail businesses, what are your concerns for our high streets? That is a big issue for all MSPs.

Stacey Dingwall: The Businesses in Scotland statistics, which were released just before Christmas, showed that we lost 3,500 hospitality and accommodation businesses, and more than 20,000 businesses overall—mainly the smallest of businesses, which employ between 0 and 49 people. We lost just over 20,000 businesses in the first year of the pandemic, and we lost the same number again last year. If we cannot offer support, unfortunately, it looks as though that trend will continue.

Jamie Halcro Johnston: When I was on the Economy, Energy and Fair Work Committee—I think that Michelle Thomson was on it as well—it held an inquiry into town centres and came up with some suggestions. The committees of the Parliament have repeatedly looked at our high streets and town centres and how we can make them sustainable. If we do not get it right, with regard to tax levels, support levels and some of the wider issues around access to town centres, in both this budget and others, then do our town centres and high streets have a future?

Stacey Dingwall: We could look at the changes in some of our biggest high streets, such as Sauchiehall Street—I am from Glasgow—over the past 15 years. If we do not have the investment, I just do not see how we can improve them, unfortunately.

Shona Struthers (Colleges Scotland): I will take a slightly different tack and bring the discussion back to the Government's ambitions for opportunity, community and equality. The college sector has seen an equivalent of a 5 per cent cut in its budget and it has suffered cuts for the past decade, but it delivers on all those things: it gives people opportunities as well as hope, skills and work. Colleges provide the fabric to support the economy, our communities and the people in them. If the sector's funding keeps being cut in the way that has been, it will be death by 1,000 cuts.

It is almost as though the approach has been that if everyone just gets a little bit of a cut, it will add up, but that is not a strategy. If you really want to deliver on equality, opportunity and community, you need to invest. The Fraser of Allander Institute's report, which was published in November, shows that the sector provides a great return on investment. We need to grow the economy, give people hope and give our businesses purpose.

John Mason: The Colleges Scotland paper talks about "repurposing existing resources". Can you tell us what that means? Does that mean cutting funding for the universities and for richer universities especially?

Shona Struthers: No, I am not advocating that at all. The university sector has also had cuts. I am proposing to put £3.2 billion in a skills system. The minister will be speaking tomorrow about the Withers report. There has been the Hayward review. There has been purpose and principles and a lot of work has been done around the whole skills system.

That work is about ensuring that any duplication is taken out, targeting investment and getting the best return from the significant and substantial investment that the Government has already made in colleges. We have to invest in colleges properly. The 5 per cent cut means that campuses will be closed, fewer students will go to college and there will be less spent on curriculums.

Making lots and lots of tiny cuts is not a strategy. We have to repurpose the skills money that we have. We are not asking to take from others for the benefit of us; we are saying, "Invest properly and you will get a better return."

11:45

Dr Jenny Peachey (Carnegie UK): I am very pleased to participate today. I am thinking about the discussion on what should come out of one budget line to go into another, which is a theme that seems to be coming out in this session, as it came out in the earlier one. There is clearly no easy answer to that. I am thinking about the starting point and the outcomes focus. It was

encouraging to see the outcomes in the budget, but I wonder whether they were they bolted on or whether they were built in from the outset.

The reason why I mentioned that is that New Zealand has its living standards framework, and as part of that it has the living standards survey, which helps officials identify where the wellbeing priority outcomes are for the people of New Zealand. Its Government departments then bid to the wellbeing fund to address those issues, and departments that work cross-departmentally and the bids that seek to deliver on a range of outcomes are given priority in the budget.

I thought about that because colleges do an awful lot of things beyond what the stereotype might be. What happens in New Zealand is a slightly different construction from what we do here, and the question is whether it would be interesting or helpful to explore with a longer-term view—obviously not with this year's budget—and whether set outcomes should be the starting point for thinking about what to spend, how to spend it and how people can come together to deliver on them, rather than starting with the priorities and saying which priority links to which outcome. That would mean that progress would be easy to measure and monitor and it would be easy to whether outcomes were being delivered successfully. It would also mean that we would be able to see whether priority outcomes are being given more budget or whether their budgets are being protected in any way.

I realise that that sounded a little abstract, and almost like a step back, but it is related to some of the things that I heard during the previous session and to what I have heard from colleagues.

Liz Smith: Do you think—

The Convener: Hold on a second, Liz. I will bring Michael Marra in first.

Michael Marra: On that point—I am also reflecting on what we heard in the previous evidence session—we have long-term targets around reducing child poverty, climate change et cetera, but it feels like the budget is much more short term and that it does not consider the long-term priorities that the Government has set out, or how we will reach the targets. The implementation gap has been much commented on. It would be interesting to hear colleagues' comments and views on the rhetoric and political language and whether they see the priorities reflected in what comes forward.

The Convener: Liz, I will bring you in now.

Liz Smith: I was going to ask exactly the same question.

Kirsten Hogg (Scottish Council for Voluntary Organisations): The problem is that the budget

makes it almost impossible to see the difference between the rhetoric and reality, because there is a lack of transparency about the third and voluntary sectors. We hear an enormous amount of rhetoric—this has also been the case this morning, actually—about the sector’s importance for mental health, employability, prevention and all the other things that we have discussed, which we have said are super-important. However, there is only one line called “third sector” in the budget process, which relates to a little bit of infrastructure. There is no way for us to tell how much money will come from the Scottish Government into the sector. There is no overall figure. The Scottish Government does not collect that—it is not in a box on a spreadsheet—even though it seems simple to do that, and it probably should be done. We have no way of knowing whether the rhetoric about the sector’s importance will be reflected in the budget, because there is no transparency.

We can say that nothing has been done through the budget to help the sector. We made only one ask for money, and we did not ask for very much. It was the £100 million of Barnett consequentials that came from Westminster around support for energy. The response was such that, to my mind, it was never considered. There was no narrative about how the decision was made—the previous panel talked about the importance of that. The answer was simply no. That is a really difficult position for us to sit in.

Another important aspect when we are talking about the way that budgets are constructed is the length of time that we are looking at, or our horizons. Something that we asked for, which would not cost any money, was consideration of multiyear funding for voluntary organisations. That would provide sustainability, with an understanding that we will still be here in a year’s time, and it would prevent staff from being at risk of redundancy. In November, the First Minister stood up in front of 600 people from the sector and said that we would see that. The budget then came in December, and things had changed. That is a really significant miss. It has been punted into the long grass. We will be able to talk about it at the next event, whatever that is. To be honest, however, I am not holding my breath, because we have been told that before. It is a significant issue. If we want to have preventative services, in particular, and consider the voluntary sector’s role in public services, we have to get those things back on the table.

Martin Booth (Glasgow City Council): I absolutely agree with Kirsten Hogg’s comment about the lack of transparency, which applies not just to the third and voluntary sector but across the entire settlement. We put out figures based on where we were at this time last year rather than

where we are at the end of the year, so there is a distortion in the figures. The headline is that local government has 5 per cent more in real terms, but that is not an accurate comparison. It leads people to believe that we have money that we do not have, and those decisions therefore become much more difficult.

Going back to the comment about the importance of focusing on outcomes, I note that one of our biggest individual spend lines in local government is teachers’ pay. We are constrained by teacher numbers. That is an input and not an output or an outcome. Attainment is improving and a lot of our indicators are positive, but we are being constrained in how we deliver services by a constraint that is putting a massive amount of pressure on every other budget line.

Multiyear funding would be fantastic, but I would be wary of it if it did not come through the entire system. For example, if you do not know what is coming from Westminster, you will naturally be prudent in your assumptions. You might end up with a worse settlement and have to make worse decisions because you are trying to predict forward. It is ridiculous that Governments and local authorities are budgeting on a one-year basis. That is a nonsense, but the whole system has to move on from that. Moving on only a bit of the system could create a bigger problem.

We need to have an honest conversation about how we deliver public services in Scotland and what is affordable. We continually increase what we deliver, but we do not fund it going forward. For example, I do not think that anyone would disagree that the 1,140 hours of early learning and childcare is a good policy, but the funding for that has not changed since it was introduced even though the cost of delivering it has gone up significantly. I am old enough to remember inflation being at the level that it has been at over the past few years, but most people are not. That pressure on the system has been thrown over the wall and it is leading to cuts elsewhere. We need to have an honest conversation about what we can afford to deliver.

Francesca Osowska (NatureScot): I return to the theme of rhetoric and reality. The previous evidence session and what we have heard in this one have highlighted the really difficult issue of choices in the budget. I am not sure, but I think that it was Ross Greer who said to the previous panel, “We’ve heard all the issues, but what would you change and what would you prioritise?” I am not sure that I can answer that fully. However, in relation to rhetoric and reality, I see in the budget a shift towards recognising the long-term challenges of climate change. We have heard reference to the statutory targets on climate change, and in the future there will be statutory

targets in relation to nature degradation linked to climate change. I have seen a shift towards those areas in the budget. From that perspective, there is some follow-up in relation to the rhetoric and reality.

There are still quite a lot of uncertainties in the budget. We have headline figures for the environment and forestry and I have headline figures for my budget, but some of the wider implications are still to be worked through. Jamie Halcro Johnston referenced the reduction in other portfolio budgets, which will have an impact. Although I welcome the shift to tackling the very long-term, systemic issues of climate change and nature degradation and their impact on communities, equality and opportunity, we still have a long way to go to understand the full implications across the budget as a whole.

Dr Peachey: I return to the implementation gap and the point that Martin Booth made about the funding of public services. There is broad consensus that the current model for financing public services is unsustainable and that something needs to be done. That something would be to invest upstream in prevention, as we have heard. There are many reasons for the implementation gap, but I find it interesting that, last year, the Health Foundation's report "Leave no one behind: The state of health and health inequalities in Scotland" reflected on the fact that a lack of managerial understanding is not one of them; rather, it is about a lack of political consensus. It strikes me that the real strength of and excitement about a committee such as this one is that it can build broad, cross-party consensus on these issues. It is not just about alleviating pressure on public services; it is about making people's lives better. If people live healthier lives and can fulfil their potential, they will not put pressure on public services, if that makes sense.

The Convener: I think that there is consensus on the need for prevention. The difficulty lies in deciding which expenditure we should reduce now in order to put money into prevention. We would struggle to get people to volunteer and say, "You know what? Maybe this segment of our budget shouldn't be spent this year so that we can invest it for the future." We have been debating this since at least 2011, and that has always been the difficulty.

Michelle Thomson: We have heard some comments about how we provide best value. Martin Booth started that off. However, I am sure that Richard Robinson has a view about the cost of central Government and the increase of £30 million when we see other budgets being cut. He has drawn our attention to the report about the need for workforce planning and so on, so I would

appreciate his thoughts. Richard, were you surprised by that increase? What are your reflections on that aspect of the budget, in the light of the report that you produced at the back end of last year?

The Convener: Just before he answers, I add that I have been threatening to bring Howard in because Audit Scotland has made the interesting point that, since the Scottish Parliament was re-established in 1999, the number of people working in the public sector has grown from 150,000 to 245,000 full-time employees and there has been a huge increase in pay, with the deals that were agreed in 2022-23 and 2023-24 being £1.7 billion more than was planned. The Auditor General has said:

"significant reform of the public sector—including its workforce—is needed to protect services over the long term".

He went on to state:

"public services in their current shape are not affordable".

There are a number of areas for us to discuss. Do you want to respond to Michelle Thomson first, Howard, and we will see where we go from there?

Richard Robinson (Audit Scotland): It is Richard.

The Convener: I am sorry. Why did I call you Howard?

Richard Robinson: I do not know. *[Laughter.]*

The Convener: Your name is right in front of me.

Richard Robinson: It is fine. I have been called worse.

The Convener: I have been calling Michelle "Gillian" for the past two years, inexplicably. I just do these things. I do apologise, Richard.

Richard Robinson: There are a few things to unpack there. We would expect the workforce to have increased since the re-establishment of the Scottish Parliament, and it has. However, that brings an additional challenge with regard to financing, given the recent pressures and particularly the increases in wages with the cost of living and all those things. We are therefore looking to promote the need for reform.

When we report on a variety of sectors, they tell us that there are capacity concerns and issues that affect how they can deliver services but that a reduction in numbers and the reduction in costs that might come with that will not, on their own, be sufficient to address that. We are therefore looking to encourage the Scottish Government—this relates to a point about the medium and long-term lens, which I might come back to—to work with

public sector bodies across the piece and say, “All bodies are different. To what extent are you reliant on workforce costs? What would reform look like? What would be its extent and what would it mean for services?” That would not necessarily be about a reduction in the quality of services. For example, we have given examples that involve the use of digitisation to improve online experiences, which might reduce the workforce input that is required.

In those conversations, we need to focus on how we can see and monitor the pace of reform. That goes back to the points that were made about having only one-year budgets and not multiyear ones. Although the Scottish Government has long-term ambitions on, for example, the environment and tackling poverty, it is difficult to map out even in approximate terms what they might mean in relation to settlements for the various portfolios and how they would work together over time. NSET was raised as an example of that. How will that impact on the economy and the amount of money that comes in for budgets?

On health, the SFC has done some work on long-term demographic changes, and there were some fairly scary results on what they mean for the costs of managing healthcare. It would be useful to have some of that factored into areas such as the workforce and capital, which has also been mentioned.

12:00

The Convener: Interestingly, there has been a significant increase in the budget for digital. John Mason is next.

John Mason: I want to follow up on what Martin Booth and Kirsten Hogg said about multiyear funding. Are local authorities and voluntary organisations looking for slightly different things? Presumably, it would make a big difference for Glasgow to know that a 5 per cent budget increase or decrease was coming down the road. We heard that for a voluntary organisation to know that it would be getting 50 per cent of its budget would not be very helpful. However, we have raised with the SCVO before the fact that, even if an organisation knew that it would get 50 per cent or 75 per cent of the budget allocation in the previous year, that would make a big difference, because it would not have to make people redundant. In that scenario, the organisation would at least know that it would be getting something. Are we talking about two slightly different things?

Martin Booth: I understand from voluntary organisations that they have to start issuing redundancy notices when they get to December because they have funding only until March, and that finding out what their budget will be in

February is far too late. However, even if there was multiyear funding, if they thought that they were initially going to get only 50 per cent of the previous allocation, they would still be making those people redundant even though the rest of the funding would come through eventually.

Part of the issue is that, if we have bad settlements—it might be more accurate to say “even worse settlements”—because they are based on a projection and the full detail is not provided, people will have to start planning to make difficult, negative decisions. That creates a massive amount of anxiety for staff, service recipients and our communities. You create almost as much stress in talking about making a cut as you do by making the cut.

My personal view is that having certainty about a budget is more important than having a longer-term view. However, as I said, it is ridiculous that we set budgets in February that will start in March.

The Convener: Yes, and we have a UK budget coming in March. We do not know how that will impact.

John Mason: Kirsten, will you comment?

Kirsten Hogg: The slight difference is that, for a voluntary organisation, there might be an existential issue as to whether it will continue to exist. It might not be only about putting some staff on redundancy notices. We are now at a point where the closure of services might mean the closure of the organisation. The certainty that we are looking for is not just about individual projects; in some cases, it now translates to the whole organisation. Once an organisation is gone, it is gone, and it cannot readily be replaced to provide the support and the connections that it provides in the community. The certainty that local authorities are looking for and the certainty that voluntary organisations are looking for are two sides of the same coin, but the impacts can be much greater for voluntary organisations.

The issue also speaks to the different funding situations in which we find ourselves. I find it almost impossible to imagine a time when the budget amount that is agreed would go up at the end of that period. That would be a lovely situation to be in, but I would much rather plan for a cut and have that certainty and stability, because that is just not the funding environment that we exist in.

The other thing about delayed decisions is that the lateness of the budget process means that organisations that receive their funding from the Scottish Government and local authorities will almost certainly face those late decisions yet again this year. I understand from the press at Christmas that the Deputy First Minister has said that voluntary organisations that are funded by the Scottish Government will know the situation by

March. It would be really good if the committee could help us to keep an eye on that. Those little process issues, which do not cost any money, can make all the difference to voluntary organisations.

The Convener: When I was first elected in 1999, I was on the Social Justice Committee, which did an inquiry into long-term funding for the third sector. That was more than 20 years ago, and we came to much the same conclusions as you came to just now. The issue is still hanging over us.

Shona Struthers: The college sector also suffers from short-termism, because we do not have budgets that allow us to plan. In fact, Audit Scotland has addressed that in some reports. If we had the ability to plan, we would make much better decisions.

There are 24 colleges in Scotland and 11,000 staff. The uncertainty is massive. We are trying to run organisations and encourage people to come to college and get an education, but it is difficult when we do not know whether we have enough money to run a particular course. We go out and start to recruit in January, but we have just had a 5 per cent cut.

That is not the point that I was going to make, but I absolutely agree that having the ability to plan longer term means that you run your business a lot better, whatever your business is.

I said that we have had a 5 per cent cut, but I am not 100 per cent sure what our budget is right now. We think that it is at that level. There is ambiguity about the exact amount of money that colleges have to run for next year, because some of the money comes from different budget lines, not just within the education portfolio. That causes a level of uncertainty.

Colleges are charities, so all our board members are charitable trustees. They sit on college boards as independent volunteers and make decisions. They do not know how much resource they are making decisions with.

We can add cash flow to that complexity. A report from the Scottish Funding Council last week highlighted that, because of the cuts that are coming to the tertiary sector—colleges and universities—the cash flow situation is dire, particularly for colleges. Some colleges could well run out of cash this academic year, which is unprecedented.

I like the idea of having an honest conversation, because that is missing. If there are limited resources, let us be honest about what we can deliver, rather than having lots of cuts all over the place, which is really inefficient. We will not deliver on priorities, because the cuts are like taking the

head off everything, rather than being specific and saying what our priorities are.

The college sector is absolutely up for thriving, growing, helping individuals to get out of poverty, giving them skills and supporting our businesses. Scotland is full of small businesses. Skilled workforces come from college students. They are the people who will help businesses to run. If you have an economy with profitable businesses, everyone benefits and you have money for your public sector.

The Convener: The cut is not the same across the board. Some areas have significant cuts, but the budgets for other areas, such as the police, fire and the national health service, have increased in real terms.

Shona Struthers: I know that there are priorities.

The Convener: There are different prioritisations.

Keir Greenaway (GMB Scotland): When we talk about reform of the public sector, the conversation can be quite lazy. The public sector has not stood still over the past 10 years. It has constantly been changing and doing so on a shoestring. To talk about reform as if the public sector has not moved is lazy.

The problem that the public sector has with funding is that it is making constant changes and trying to deliver services on a shoestring. At the moment, it has the spectre of redundancy, privatisation and bankruptcy hanging over it while it is trying to make those changes.

Michael Marra: The committee has encountered challenges in finding any strategic approach to public sector reform. Keir Greenaway is right. It is clear that what you talked about is happening everywhere. Every organisation is having to react rather than taking a strategic approach.

We took evidence from the permanent secretary, who said that he did not understand, or was not aware of, the current Government's approach to public sector reform. The resource spending review was dropped, but it seems to be back on the table. Do the witnesses—Audit Scotland and Martin Booth in particular—have clarity about where the approach is headed, given what they have heard from the Deputy First Minister?

Richard Robinson: I think that the written evidence to the committee in response to its pre-budget scrutiny gave further information about the stages. The issue is the strategic approach. Reform happens, but it is about how we capture that and quantify it financially. It is also about how we spread it out over time, because some reforms

may take some time and require some investments. We have talked about digital, for example. It is good to see the list, but we will inquire about the detail and progress of that reform.

We have talked about the urgency of reform, so we will be looking at the pace of it. However, a bit of it is about the savings or costs in relation to reform, because reform is not always free. Reform can cost money—Keir Greenaway alluded to that. How will we see that in the budget, through digital? What type of financial return or improvement to services are we going to get?

The Convener: I was a councillor in 1995, at the time of the local government reform, and I remember how expensive that was.

Stacey Dingwall: I want to pick up on Shona Struthers's point about the pipeline for employees between colleges and small businesses. We hear from our members about really low levels of engagement, particularly with the apprenticeship system. At the moment, that is primarily because of the cost of doing business. Businesses might want to recruit, but they just cannot afford to.

We hear from our members that there are a lot of barriers for the smallest businesses in relation to apprenticeships. There is the cost of taking on apprentices and the space and time needed to support an apprentice, and at the end of the apprenticeship, it is often more attractive for the apprentice to leave the small business and go to a larger company that is able to offer progression and higher wages. When we surveyed our members this time last year, unfortunately 80 per cent or more had not engaged with the apprenticeship system in Scotland.

The Convener: No one has their hand up, so I will nab someone and drag them in. Sorry—I said that nobody has their hand up and suddenly all those hands went up. I will take Martin Booth first.

Martin Booth: To follow up on the apprenticeship point, in local government generally, recruitment is incredibly difficult. Whether we are talking about social care staff or professional staff, recruitment is really challenging. We cannot compete with the private sector for professional staff. In Glasgow last year, we took on 10 trainee accountants—a mixture of apprentices and graduates—and we are taking on another four this year. That is because we had vacancies for qualified staff and we could not get them, so we took on additional apprentices.

Apprentices and graduates are fantastic, but keeping them once they qualify is really challenging. Again, it is about whether we have got the structure right in the public services and the amount of time that we spend dealing with the

bureaucracy—for example, in the relationship with the Scottish Government and in doing returns.

Audit has definitely become more challenging over the past few years. We have moved away from Audit Scotland, so I am not having a go at it. It is about the amount of resources that we have to put in to support an audit. That is really because of things that have happened elsewhere. Auditors are becoming incredibly risk averse, and they want to increase their sample size, but we do not have the resources to do that. That is a real challenge as we go forward.

Keir Greenaway: I want to raise a point about the equality priority in the budget. From a local government perspective, we are looking at equal pay issues across the public sector. Many councils are looking at the recent Fife judgment. Martin Booth can tell you a bit about the cost of equal pay. One of the problems is that councils are in fear of taking on the challenge of equal pay and finding resolutions, because they do not have the finances and support to resolve that. That is something that definitely needs to be considered.

Francesca Osowska: I want to go back to the points that have been raised about public service reform. As was discussed earlier, the conclusion is that we do not have sufficient resource at the moment to deliver all the services that the public sector is delivering and that the public expect. There are a number of ways in which we can address that, but one has to be through changing the shape of the public sector through a reform process.

12:15

I completely agree with Keir Greenaway's points about the on-going change that we have had throughout the public sector over a number of years. I also agree with Richard Robinson about reform not being cost neutral. However, we have opportunities to make efficiencies through the public sector reform programme.

Estates are a key opportunity. The public sector estate across Scotland is large, and the use of that estate has changed significantly post-pandemic. In NatureScot, we are changing the profile of our estates to match that. We want to do that in a collaborative way with other organisations, and the key is to look at how we can cluster with other organisations so that we can deliver wider efficiencies.

Similarly, digital is a great example. How can we use digital services? For example, my organisation provides 3,700 wildlife management licences a year. If we can use digital technology to take out some of the human interactions there, we can not only provide a better service for our customers,

but we can move people who are doing that work at the moment on to other roles.

Again, it is about a whole-system approach. The marine directorate in the Scottish Government and the Scottish Environment Protection Agency issue licences. How are we doing those things collectively? That collective shift on public service reform is important.

Kirsten Hogg: On public service reform, I give a reminder that not all public services are provided by the public sector. Voluntary organisations provide a chunk of public services as well as preventative services that stop people having to access some of the more mainstream public services.

I will make a link to the recruitment issues that we face in our sector. Public service reform has to be about how we get best value and more bang for our buck rather than only about what the lowest possible costs are. We have to think about that.

One way to try to bring costs down is to contract things out, but that sometimes means that voluntary organisations are given contract values that do not allow them to pay the same wages that people in the public service who do the same jobs get. That not only means that there is real inequality in the wages that are available to people, depending on what sector they work in, which could have an impact on the service that service users ultimately achieve; it also means that voluntary organisations are sometimes not in a position to meet fair work obligations, which we are working towards. The constant thinking about how we can make things cheaper has knock-on effects that include the recruitment challenge that voluntary organisations face, which means that those organisations sometimes face issues around their sustainability.

I am saying that everything is systemic. There are ways to make things cheaper, but we have to think about what steps come further down the road. If those steps are the closure of voluntary organisations, the ending of preventative services or the loss of providers that provide public services at a potentially cheaper cost, that would be an enormous loss from looking for ways to slice little bits and bobs off the budget here and there. We also saw during Covid that voluntary services can provide those services at a better quality, or certainly a different quality—they can connect with communities and deliver things that are needed in those areas.

The Convener: So far, everyone has body-swerved the issue of taxation. I will ask Keir Greenaway about that, as the GMB's submission is the most virulent on the issue.

The GMB welcomes the introduction of a new income tax band,

“as this will collect more money from higher earners”.

However, it added:

“this goes nowhere near far enough to plug the gap in Scotland's public finances.”

Do you believe that the gap should be plugged solely by increases in taxation or that there should be a combination of additional grant funding from the UK, for example, and taxation? How would you pitch that?

Keir Greenaway: I do not see us turning down extra money from Westminster, but we have to look at increasing tax income and increasing the tax base in Scotland. The Scottish Trades Union Congress's document on how that can be done has been talked about. That came up last year. The document has been refreshed for this year, and it has lots of ideas in it.

In the earlier session today, we heard a lot about freezing the council tax. The council tax structure should be changed, and we should be looking to put a more progressive tax in its place. We should be doing more on tax to fund public services, because our communities need those services to be running properly.

The Convener: The STUC talked about raising up to £3.7 billion. The Scottish Government's increases in taxation would, on paper, raise £200 million. However, when behavioural change comes into play because, for example, people might decide that they will not do an extra shift if they are paying a marginal tax rate of 69.5 per cent, the actual amount that would be brought in is about £82 million. One of my concerns about the STUC document was that it did not seem to take that behavioural change into account. What is your view on behavioural change and how it would impact on the amount that can be raised—not on paper, but the actual amount that the Scottish Government would have available to spend—given the effect that the increase would have on some people's behaviour?

Keir Greenaway: I am not an expert on tax and behavioural change, but there is an appetite for public services that function and run well. People cannot just say that they will not do that extra shift or decide that they might move to a different part of the country because of tax rates. People value their public services and want them to be running and functioning properly, and it is great to be able to access NHS services quickly when we need to. It is a question for wider society about how much people are willing to pay for the services that they want. When I talk to GMB members, public service workers and the communities that they work in, they say that they want decently run public services. That means increasing the tax threshold.

The Convener: I think that people do want that, but the issue is whether, if the tax threshold is

increased to a certain degree, it ends up bringing in less than it would have done if it was not increased because of the behavioural changes that people would make. SPICe, the Fraser of Allander Institute and the Scottish Fiscal Commission have all said that the £125,140 rate would bring in less than 15 per cent of the money that, on paper, it should bring in because people will say that they will not work an extra day this week because it will all go on tax anyway.

I am asking whether the STUC and GMB are looking at that particular issue. It is not a zero-sum game. It is not a situation whereby increasing tax by 5 per cent means that we get that extra money, because it will be lost through behavioural change. Will the STUC and GMB go back and look at that and say that, if we pitch it too high, we will end up getting less and there will be lower productivity, sluggish economic growth and we will not have the money for public services? What are your views on that behavioural issue?

Keir Greenaway: I understand that it is not a zero-sum game. You gave the example of people deciding whether they are going to do that extra shift, and we could have more permanent jobs where people could decide whether they do an extra shift and whether that will push them into a different tax threshold. Whether people decide to work an evening or do a bit of overtime or take on the next job is also not a zero-sum game, and some will.

We need a greater understanding in that space, but I would not be so negative about it. Raising the tax threshold might not produce the exact numbers that the STUC is suggesting—I am not an expert in that—but we still need to explore it. It still needs to be on the agenda, because if we want to fund our public services properly, we need to increase our tax base.

Richard Robinson: Can I come in here?

The Convener: Yes.

Richard Robinson: The point about raising taxes by X amount but only getting a return of Y because of behavioural change is really interesting. For us, however, there is probably a point around the extent to which the Scottish Government can use the fiscal lever to generate sufficiently more money. Within a budget of £60 billion, the movement is £82 million. The majority of the changes that have come about have done so through an improved forecast for relative earnings in Scotland and fiscal drag. I believe that there are plans for the Scottish Government to introduce an updated tax strategy next year to set out in the main—income tax is not the only game in town—how that will be managed and what the extent of it is.

That leads back to the earlier point about the economy. There are three strands to how the Scottish Government intends to manage its fiscal sustainability: part of it is about tax policy, part of it is about spending and the other part is growing the tax base and making Scotland an attractive place to work where wages are driven by skills and universities, as we talked about earlier. The area is incredibly complex. On the priorities, it is about seeing how the different facets of Government are working to drive an improved economy, because that will help with the money that is required for the services that Keir Greenaway mentioned.

The Convener: Earnings growth is at 6.6 per cent—Scotland had the highest earnings growth in the UK last year—and a lot of that will go into taxes. Fiscal drag, which the UK and Scottish Governments are implementing, has also brought in huge amounts of money. It seems that that is bringing in vastly more than the £82 million from the tax rate increases. Is the increase in tax rates more ideological than practical, given that other measures appear to be bringing in about 20 to 25 times more than that?

Richard Robinson: I will not comment on policy but—

The Convener: I am talking about the numbers, not the policy.

Richard Robinson: The numbers speak for themselves in terms of where the additional funds are coming from.

We have spoken a lot about inter-year and multiyear issues but less about in-year changes that might happen quite quickly, such as reconciliations and so on. The SFC raises the point that the OBR might change its assessment of the UK's growth position, which might factor into the budget. There are always a number of such factors. It is about how expenditure is managed in-year, especially given the priorities that the Scottish Government has set out.

The Convener: I asked Keir Greenaway about additional taxation or additional grant from the UK. The UK grant situation is obviously important. The UK Government has cut our capital budget by £484 million, which will have a huge impact. In the previous evidence session, we talked about, for example, the impact on housing, which is facing a 30 per cent cut in the year ahead. Does the GMB not feel that the UK Government should have increased the grant to Scotland this year?

Keir Greenaway: I am sorry, but can you rephrase that?

The Convener: Should the grant—for example, the resource grant that the UK Government awards Scotland through the block grant—have been increased more?

Keir Greenaway: As I said, we would always argue for Westminster to give a greater settlement to the Scottish Government, so that that can be spent on the services that we want it to be spent on. You will not get a counter-argument from me on that.

The Convener: That is fine. I was just looking for clarification on that.

Does anyone want to comment on taxation at all, for or against, or to talk about the Scottish Government's capital priorities? I touched on housing, which was discussed at some length in the previous evidence session. Where can capital be spent? For example, I mentioned previously that the police are getting a 12.4 per cent increase in capital, whereas there is a 30 per cent decrease for housing. It would be interesting to hear what people have to say about that.

Shona Struthers: The college sector has been devoid of capital investment. We have had capital reviews done that suggest that hundreds of millions of pounds are required just to make our colleges wind and watertight. That does not take into account infrastructure changes, digital improvements or meeting our net zero commitments. This year, the college sector had a very small amount of capital, which barely covers backlog. I know that we are not the only part of the public sector that has not had that investment, but that does not feel like a good enough argument to me.

The Convener: There has been a £484 million cut in capital. Where should that cut fall?

Shona Struthers: I can only comment on what the college sector needs, and it needs capital investment. We have students in buildings that have leaks in them and where there are buckets collecting water. Our students deserve a good education and a great experience at college.

The Convener: Does anyone else want to comment on tax, capital allocation and resource prioritisation, or any other aspects of the budget?

Richard Robison: I will comment on infrastructure. We have produced a report called "Investing in Scotland's infrastructure", and the Auditor General for Scotland has been calling for quite a while for a public consolidated account to provide a better understanding of the extent of the assets in Scotland. In that report, we say that, particularly because of the need to prioritise with a smaller capital budget, the Scottish Government needs to be clear about the extent to which that budget is going towards maintenance and how it has been prioritised to best fulfil the Government's ambitions.

12:30

One proposal that the Scottish Government has made as a means of reform is about understanding how shared services might affect what is needed and might make the best use of the assets that we hold in Scotland. The Scottish Government plans to do some work next year on understanding better, or mapping out, how it intends to prioritise its infrastructure spending. At the moment, we can say that it cannot afford to do what it originally planned to do.

Michael Marra: The point about college infrastructure is a strong one. We could draw a contrast with the university sector, which has the ability to raise finance. Over the longer term, the Scottish Government has drawn the college sector much closer to it. The Government's regulations and the way that the sector is run result in less flexibility in raising money.

To come back on the convener's point, I do not think that there has to be a zero-sum game in that regard. There might be alternatives for the college sector to look at different forms of revenue raising and flexibility in the way that it works. We should not just be saying that the overall capital budget should be cut.

Essentially, it comes down to a class issue. Many people who go to colleges are from lower-working-class backgrounds and they have a much poorer experience, in terms of the physical environment, than people who go to university. Traditionally, those people are from more affluent backgrounds, and they are in brand-new buildings. Over the past decade, there has been huge investment in universities across the country, but colleges have not replicated that. There is a fundamental unfairness in that.

Martin Booth: In local government, raising capital is not the problem; the issue is paying it back. I am not an expert, but I think that the university sector can pay it back because it can bring in overseas students who bring in revenue. In local government, we can raise capital through the prudential borrowing regime. We can borrow, but the issue is having the revenue to pay it back. Lots of the infrastructure assets that we need and want to invest in are public assets, so they do not generate a return or income. For example, I am talking about renovating libraries or schools.

We have crumbling roads infrastructure because of the impact of changes in our climate on road surfaces, but we do not have the capital grant to do something about that. We could borrow for that, but how would we pay it back, given that there is no revenue? We could go into road charging. That is a completely different issue, but something like that would be needed to make a difference.

We need to understand where the revenue will come from to pay back the capital. That is where universities are very different from colleges.

The Convener: The investment in critical safety and maintenance for road infrastructure is going up by 40 per cent next year to £524.7 million, and college capital is going up from £340.7 million to £356.9 million, which is a 4.5 per cent increase. In both those areas, capital is actually increasing.

Martin Booth: With roads infrastructure, there is a difference between what local authorities control and what the Government—

The Convener: Indeed. However, the point that I am trying to make is that, as Ross Greer said in the previous evidence session, a lot of the capital funding is going on critical safety and maintenance. The amount for road improvements is quite low—it is only £124 million. The issue is that the trunk road network maintenance and safety aspect is taking up the bulk of the capital, which is why local government is not getting the capital that it requires to do the pavements and side streets, which are also extremely important for people.

Does anyone else want to make any points?

Stacey Dingwall: A point just came to me there. I believe that there is a cut to the budget for the Scottish National Investment Bank. In our pre-budget submission, we called for—we called for this last year as well—an increase in the investment that SNIB makes in small businesses to encourage growth. Obviously, a cut in the budget for the bank this year gives us a concern about whether it will be able to do that.

The Convener: I see Keir Greenaway playing with his fingers—when I see you doing that, Keir, I keep thinking that you are going to put up your hand to make a contribution.

There does not seem to be any great enthusiasm to say anything, so, if that is the case, we will—[*Interruption.*] I see that Shona Struthers wants to come in. On you go, Shona.

Shona Struthers: During the next phase of the budget, while it is still going through Parliament, is there likely to be much movement in what we have at the moment? I would love to see investment in the college sector.

The Convener: That is a matter for bartering, discussion and debate among the political parties. At this time of year, representatives of each of the political parties will speak to the Deputy First Minister to see whether they can shift the dial on the budget in one direction or another. There will not be any more money from anywhere, unlike in the good old days of Derek Mackay's sofa. It is a question of moving the money from one page of the budget to another page. If colleges make a

really good argument, it will no doubt be to the detriment of somebody else. That is the way it works when you have a budget that is, in effect, shrinking.

The theory is that they use what is called the GDP deflator, which means that inflation is set at 1.7 per cent in the budget. We all know that inflation is not 1.7 per cent, but that is how it is measured, because the UK Treasury GDP deflator is used. A 2.6 per cent increase in resource is probably a reduction in the real world, because more than half of the money that is spent here goes on salaries and wages and nobody is getting 2.6 per cent.

Martin Booth: It would be good to get a bit of transparency on that as we go through the budget process. A lot of the issues come from the fact that the public believe what they read, and they believe that there is a 5 per cent real-terms increase in budgets, but that is not comparing like with like. It is comparing the starting position, not the ending position, when they look to the next year.

Even elected members struggle to understand that—not that they do not completely trust me when I say, “No, that is not what is happening, this is what is happening.” However, it is very difficult for them, so it would be good to have more transparency about what the true position is.

The Convener: Figures for local government show that the general capital grant is falling from £607.6 million to £476.9 million, which is about a 19 per cent reduction.

Ross Greer: I am aware that every year—concurrent to the budget process for the following year, roughly—we start to get reports of the Government underspend in the current financial year, so I have a question for Audit Scotland on transparency and public understanding. Do we need to have a different kind of discussion, use different language and present things differently when we are talking about underspend?

Two or three years ago, there was a £2 billion headline figure for the underspend, the vast majority of which was just a change in how student loans were accounted for. No cash remained unspent at the end of the year.

If we are talking about public understanding and expectations, we constantly have this issue, every spring, when people think that a big pot of money has not been spent, for no particular reason. However, it is much more complicated than that. Do we need to have a discussion about how we talk about the underspend from each financial year going into the next?

The Convener: For example, if you had an underspend on paper of £150 million, that is less than one day's revenue for the Scottish

Government; it is a nonsense. That is the money that you have available in order to move things forward. It is always 100 per cent committed, in my understanding.

Ross Greer: I have sat in on some public sector pay negotiations and union reps quite reasonably say, “Well, hold on, the newspapers this morning say that you have £2 billion, but you will not give us £200 million to settle this,” but, actually, there is not £2 billion.

The Convener: Yes, well—newspapers are another story.

Richard Robison: Your point about transparency and the best way of understanding the underspend is a good one. Each year, when the Auditor General sits in front of the Public Audit Committee, there is a question about that point: the underspend and putting it in the context of the overall spending and what that means and how you can carry it forward between reserves.

As well as underspending, there is another issue when it comes to budgets, which is that the Scottish budget will have money that it can spend, plus a lot of non-cash and annually managed expenditure that it cannot spend. Often, that will be reported as a block and that can mask some of the issues.

I think that it is up to the Scottish Government to think about how it reports it. We try to report it as clearly as we can, but it is definitely tricky, as is the issue that was just raised around budget-to-budget comparison versus the actual budget, and I think that more work is due to be coming out around that.

One of the points that we have raised is that there were some quite large increases in in-year workforce costs that would not be seen in a budget-to-budget position, but are real costs that local government, the NHS and others have to meet.

The Convener: I will let John Mason ask a question in a minute.

One of the issues is the process: we get the autumn statement and then we have three weeks for the Scottish Government to produce a budget. The Scottish Government has to wait for the Scottish Fiscal Commission to come out with its forecasts, because that is what the budget is based on. The SFC comes up with the forecasts and says how much is going to be available. The Government then starts divvying up the pot. It also has to haggle with Ross Greer and his colleagues, because there is a two-party agreement at that stage, and then it has to put it all together. That is the background and, to a large extent because of that, one of the things that the budget document lacks—as it always does—is the reasons why the

decisions have been made. I do not think that it would improve transparency if we were to get the equivalent of “War and Peace” on every budget line—it would be more than the 125 pages that it is already—but it would be useful if we had more of an explanation in the document about why one decision was being made, as opposed to a different decision. That is something that we can press for.

Time is against us, so I want our guests to have a wee think about any final comment that they want to make after John Mason has asked his question and before we wind up the session.

John Mason: On the transparency point, is there a danger that we are getting too much information and that we are just getting lost in it? The Scottish Parliament information centre makes the point that there are 157 pages just on how the budget tackles inequalities. I confess that I have not read the 157 pages. I think that the convener has touched on it, but maybe we need a different kind of information.

Martin Booth: It is very complex, but a lot of it comes from the headlines—the public read headlines, but they do not read the 157 pages. For example, last year, on numerous occasions, the Scottish Government quoted its real-terms increase in its budget and compared it to a cash increase to local government. There is a reason why we compare cash to real terms. If we compare real terms to real terms or cash to cash, we get a different narrative. We need to have that sort of transparency and openness, whereby we just tell the truth and compare like with like.

John Mason: Are they not both true, in a sense?

Martin Booth: If you are saying that the Scottish Government has had an X real-terms increase but that local government has had a Y cash increase, why are you not comparing like with like? It is about transparency and being honest with the public and with all the different sectors as to what the actual position is.

John Mason: Is it possible for politicians to be honest with the public?

Martin Booth: I could not possibly comment, Mr Mason.

The Convener: I will let Jenny Peachy in and then we will go round the table. People can volunteer as to who wants to go first. If you do not, I will just pick somebody. Stacey Dingwall will go last, because she went first.

Dr Peachey: This can be by way of my final comment, if that is better for time and speed. I just want to pick up on the comments around transparency and engagement, whether that is with the sectors or with the public and with

citizens. I appreciate that we are almost taking a step back from the budgetary process in order to think about that. Carnegie is really interested in democratic engagement with budget choices. We did some thought-provoking research last year that showed that 60 per cent of people in Scotland feel that they cannot influence decisions that affect them that are made at the Scottish Government level, and 51 per cent feel that in relation to decisions made at local council level. That sense of alienation is a little alarming and we will need to try to reverse that.

Is there a way to create opportunities for meaningful participation? This suggestion is not a short-term fix and is not for this time around, but would it be interesting to explore with colleagues ways in which the Government could involve citizens in those broader budget processes, beyond these types of committees or individual tax or spending decisions? That would be a way to improve trust in political processes. Having agency is good for people's wellbeing and could perhaps lead to better decision making, because the process would be informed by what citizens and the sectors were saying. I will leave it there.

The Convener: Okay, who wants to go first with their final comments?

Francesca Osowska: I will volunteer to go first in order to save you picking on someone.

The Convener: It was going to be you anyway, so well guessed.

Francesca Osowska: Thanks for the invitation to the committee; it has been a helpful discussion. I am an outlier in the group of people before you because I see some positives in the budget settlement in the pivot towards supporting the nature and climate crisis. However, I echo some of the generic points that have been made in relation to budget transparency and early decision making, particularly with regard to voluntary organisations, third sector organisations and people that we fund. Obviously, if we were in a position to have more long-term or even medium-term certainty on the budget position, that would help our relationship with other organisations who are delivering on our behalf. I support the comments on that.

12:45

Martin Booth: Thanks for the opportunity to join you today. The Local Government Information Unit recently carried out its first survey in Scotland on local government finances, and only one respondent was not concerned about the future financial sustainability of their local authority—I think that they might not have understood the question. We have seen a pattern of section 114 notices being issued in England. I do not think that that will stop. We have different legislation in

Scotland—we do not have section 114 notices—but I think that the risk of a similar situation happening in Scotland is pretty high. Unless we fundamentally review how we deliver public services and look at our structure and how we can deliver what is affordable, it is almost inevitable that that will happen in Scotland. That is really bad for local communities and it is really bad for the most vulnerable people in our society.

Shona Struthers: My further thoughts are around investing for growth that helps our economy. Giving people a role in society, looking after their wellbeing and giving them purpose and skills and work has got to be better in the longer term. If people do not have hope and work and purpose, they have to draw on other services, such as health, justice, and all sorts, and that is just a drain. We need to invest and help everybody: people, communities and the Scottish economy.

Keir Greenaway: Thanks for the invitation to come along today. I agree with Martin Booth's points around potential bankruptcy. My final points are on public sector pay. There has been a little bit of a discussion about public sector pay. Public sector pay has not exploded—it has barely kept pace with inflation. We will not be asking our members to subsidise services with their quality of life. We will expect decent public sector pay deals for our hard-working public servants.

Kirsten Hogg: One of the reasons why I advocate so hard for the sustainability of volunteer organisations is because of the amazing work that they can do because they really understand their communities and then transfer that into campaigning.

I will give my last word to some of the other organisations that stand behind me that have commented on the budget. Children's charities, including the Child Poverty Action Group, Action for Children and Save the Children have all questioned the budget's ability to help in meeting the child poverty targets, particularly in relation to the Scottish child payment. Oxfam Scotland has suggested that short-term budgeting will not resolve the long-term issues that are inherent in the Scottish Government's missions. The Poverty Alliance also believes that the budget fails to deliver the fundamental changes that we need to address policy. Shelter Scotland has criticised cuts to the housing budget and the Coalition of Care and Support Providers in Scotland says that the £12 an hour for social care staff needs to go up to £13 per hour. Those are some of the more detailed aspects of the budget settlement that voluntary sector bodies would like me to raise on their behalf.

Richard Robinson: The Auditor General has spoken increasingly about financial sustainability

and reform and that is likely to continue over the course of the next year. It has been a fascinating conversation about some of the trade-offs and whether there are any ideal trade-offs. It does not look as if there are, but it is important to understand the links between the economy and skills and the ability to generate taxes and public money. I remind everyone that it is a year-round budget process, so it will be really important to keep track of the overspends and underspends in the budget as it moves along that path towards the medium term. We look forward to seeing what is in the medium-term financial plans about how the situation has changed.

The Convener: Yes, I am sure that we all look forward to the spring and autumn revisions. Stacey Dingwall, I will give you the final word.

Stacey Dingwall: I want to circle back to the first point that you made about that statement about choosing to invest in health or business. That can make it sound as though if we choose to invest in business then that is a choice to invest in millionaires. However, we know that the vast majority of the Scottish economy—99 percent—is small businesses. If you invest in those small businesses, you are investing in communities, in health outcomes and in a lot of other Government policy agendas, such as community wealth building, which is a big one. It is important not to think of business as a monolith—it is a lot more nuanced than that.

The Convener: I thank everyone for their contributions and for coming along today; it has been a very helpful discussion. Next week, we will continue to take evidence on the Scottish budget when we hear from the Scottish Parliamentary Corporate Body on its budget bid, and from the Deputy First Minister and Cabinet Secretary for Finance.

Meeting closed at 12:50.

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