



OFFICIAL REPORT
AITHISG OIFIGEIL

Finance and Public Administration Committee

Tuesday 20 February 2024

Session 6



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FINANCE AND PUBLIC ADMINISTRATION COMMITTEE
8th 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:

Dr Alison Cumming (Scottish Government)

Shona Robison (Deputy First Minister and Cabinet Secretary for Finance)

CLERK TO THE COMMITTEE

Joanne McNaughton

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament

Finance and Public Administration Committee

Tuesday 20 February 2024

[The Convener opened the meeting at 10:32]

Budget Scrutiny 2024-25

The Convener (Kenneth Gibson): Welcome to the eighth meeting in 2024 of the Finance and Public Administration Committee. We will consider the Budget (Scotland) (No 3) Bill at stage 2 today. However, before moving to our formal proceedings, we will take evidence on the Scottish Government's response to the committee's report "Budget Scrutiny 2024-25".

We are joined by Shona Robison, the Deputy First Minister and Cabinet Secretary for Finance. The cabinet secretary is accompanied by Scottish Government officials Dr Alison Cumming, who is the director for budget and public spending; Ian Storrie, who is the head of local government finance; and Lorraine King, who is the deputy director of the tax and revenues directorate. I welcome our witnesses to the meeting.

Last Friday, members received copies of the Scottish Government's response to our report. Before we move to questions from the committee, I invite the cabinet secretary to make a short opening statement.

The Deputy First Minister and Cabinet Secretary for Finance (Shona Robison): Good morning. I thank the committee for its budget scrutiny report, which I have carefully considered.

As I have highlighted to the committee and to the Parliament, the budget has been developed amidst very challenging economic and fiscal circumstances. The United Kingdom Government's autumn statement was a worst-case scenario for Scotland, and we have further significant uncertainty on the horizon with the spring statement on 6 March.

Although some newspapers seem to have received a briefing relating to tax, we are clear that the UK Government needs to use any headroom that it has to invest in services and to provide consequential for the costs of the 2023-24 national health service agenda for change pay agreements in the coming financial year, which was totally absent in the autumn statement.

Subject to what the spring budget delivers, as I have already advised local government, I am committed to passing on in full any consequential

that are received in response to increased teacher pension contributions and the estimated £45 million of additional funding to local government following the UK Government announcement in January, should they be confirmed as net additions to the Scottish budget. It is a fair budget for local government, but it is a challenging one, and I do not underestimate that. It is a challenging budget across the public sector.

If the capital funding position improves, I will also consider the funding position for our affordable housing supply programme, which continues to be a key priority for me. That all depends on the availability of additional funding from the UK Government, and the position on that continues to be uncertain.

Although additional funding is always welcome, the funding position could worsen, negatively affecting the assumptions underpinning the Scottish budget to date. As we have just seen again, the UK Government can unexpectedly reduce our funding, which is an on-going risk.

The recent UK Government supplementary estimates now indicate a reduction in our financial transactions of £64 million this year. That is unexpected and will be hard to manage, because it could impact on key policy areas such as housing. That is why it is so important for the UK Government to use the spring budget as an opportunity to improve the capital budget position, which will be crucial for affordable housing plans and other priorities such as NHS infrastructure projects.

I did not lodge amendments to the Budget (Scotland) (No 3) Bill ahead of this meeting. However, the committee will be aware of the Cabinet changes that the First Minister announced on 8 February. They included combining economy, net zero and energy to create a strong new portfolio for building Scotland's economy. That means that transport should now be considered an individual portfolio, to reflect the importance and complexity of that vital delivery area. The portfolio changes therefore affect the Scottish budget, which is why at stage 3 I will propose a small number of technical amendments to reflect those changes. The committee will appreciate that there was insufficient time to prepare those amendments ahead of the 9 February lodging deadline for stage 2.

I thank committee members for their on-going engagement on the budget bill. I look forward to our discussions this morning.

The Convener: Thank you for that helpful opening statement. I realise that you have to operate within certain timescales. However, given the continued reference, not only in our report but this morning, to the UK Government's spring

statement being on 6 March, it seems to me that it would have been more helpful if our budget had been announced after that date. That would have given the Scottish Government greater opportunity to reflect on what the UK Government was doing. Of course, given that we had already scheduled our budget announcement, it would have been more helpful if the UK Government had announced its spring budget before our stage 3 process.

Shona Robison: Indeed. That is the difficulty with the constrained timetable in which we operate—not least as regards ensuring that our tax position is clear and has been notified and so on, and that the public sector is aware of the budget position well in advance of the start of the financial year. The spring budget timetable is very challenging indeed, and we made that point to the Chief Secretary to the Treasury. We also made the point that it could severely impact the assumptions made in our budget, which would be announced barely a week later.

We have made direct requests in relation to the basis for our budget, which, for the moment, has been set around the autumn statement. We have asked for flexibility on that. Should the UK Government's spring statement offer opportunities for us to enhance our budget, we would want to use that flexibility. There has been precedence for flexibility being given in previous years. In light of those circumstances, such flexibility would be helpful. However, so far, we have had no confirmation from the Treasury that it will be given.

The Convener: The main reason for holding this evidence session prior to stage 2 is to go through our report and the responses to it. I will not go through all of those, because I know that six colleagues want to come in on certain areas. However, I will touch on some aspects and other members might wish to build on those.

The first aspect was covered in recommendation 41 of our report, which was on the potential impact on business and the economy of the differential income tax policies in Scotland and the rest of the UK. In your response, you said that

“the move to a five-band system, alongside additional government spending as a result of the policy change, had a relatively negligible impact on the size and growth rate of the economy in the short-term.”

What long-term work is being done on whether those policies will have longer-term impacts, whether they be positive or negative?

Shona Robison: It is important that we take both short-term and longer-term views. The Scottish Fiscal Commission's modelling takes into account factors such as behaviour change, but

work that His Majesty's Revenue and Customs will publish later this year will provide more detail.

We will continue to consider, monitor and evaluate our policies for any impact, whether it be on behaviour change or any other element of the economy. We will do that through the auspices of organisations that are trusted and independent, such as HMRC. The work that it is doing in this space will be extremely valuable. I am sure that the committee will take an interest in that information, as soon as we have it and it is in the public domain.

The Convener: In paragraph 46 of our report, we raised the issue that there was

“little evidence of either government seeking to avoid or resolve the anomalies arising from the way their tax and national insurance policies align”.

You responded that you accept that

“the high marginal tax rate from both Income Tax and NICs faced by some taxpayers between the Scottish and UK Higher rate thresholds results from incomplete devolution of tax powers”,

but that the Fraser of Allander Institute has said that

“for the Scottish Government to address this issue ... there would have to be significant increases to Basic and Intermediate rates.”

You further said that the UK Government has refused

“to substantively engage on this matter”,

but that you

“continue to call on the UK Government to have regard to interactions and engagement with devolved policy when setting National Insurance Contributions policy.”

The UK Government would argue that the issue arises because the Scottish Government has chosen to set a different higher rate of tax than the UK Government, so one could argue that it is the Scottish Government that should change. Given the fact that the UK Government is unlikely to change its position, what will the Scottish Government do to try to minimise the marginal rates, whereby people are, in effect, paying a 52 per cent marginal rate on £43,666 a year?

Shona Robison: I go back to the point that, fundamentally, the marginal rate thresholds arise because of the incomplete devolution of tax powers. There are two systems. The powers of the Scottish Parliament and the Scottish Government to vary tax rates have been set for quite some time, but the interaction with the UK Government's tax position has not been properly resolved. There is a need to do that, but it has to be a two-way street. We are up for having that discussion on how we can take those matters forward, but we have not been able to engage in a way that is helpful or constructive.

You noted the Fraser of Allander Institute's view on the need for significant increases to the basic and intermediate rates. I do not think that that would be appropriate, given the pressure on household budgets. The solution would be a tax system that is fully devolved to Scotland, so that we can drive out the anomalies that arise.

The marginal rates are a concern and we will continue to pay attention to them. We will look to resolve that issue over the longer term, if we can, but finding the funding to do so and the implications of that in these constrained financial times would be difficult to justify. We recognise that the situation is far from ideal, but resolving it in the short term would not be affordable.

The Convener: On the issue of not being affordable, you used that argument in relation to not passing on the non-domestic rates consequentials, on which you said that, because of

"a 'worst case scenario' UK Government Autumn Statement",

that money has had to go into public services such as the NHS, although you went on to say that

"the Basic Property Rate for non-domestic properties with a rateable value up to and including £51,000 will be frozen, delivering the lowest such rate in the UK for the sixth year in a row."

You also talked about how, for businesses in islands and in three very remote communities, rates have been capped at £110,000 per ratepayer, with 100 per cent rates relief.

10:45

Have you had any discussions with the UK Government about the VAT threshold? The threshold has been stuck at £85,000 a year since 2017, but cumulative inflation since then has been 32 per cent and the Federation of Small Businesses has said that a significant number—more than a third—of its members are reluctant to grow their businesses because that would take them into the VAT threshold. If the VAT threshold was increased, that would allow local businesses to have more money in their pockets, as opposed to having to pay 20 per cent over and above that threshold.

Is the Scottish Government engaging with the UK Government in order to help small businesses, without having to reduce the income from non-domestic rates at a time when the Scottish Government will already be paying £685 million a year in reliefs from next April and must use the money in other areas of its budget?

Shona Robison: We have raised that issue. Alongside other ministers, I had a constructive meeting with the hospitality sector. Don't get me

wrong—of course those in the sector would have liked to see NDR relief passed on in Scotland, but I wanted to be really clear with them that we had to make a difficult choice between investing that money either in public services or in the business rates tax cut. Of the £310 million of consequentials, £260 million was for business tax cuts. In the light of the pressures on public services, I could not, in all conscience, do that.

We then talked about other areas and the hospitality sector raised concern about VAT as a key issue. I have since seen some interviews with leaders of the hospitality sector in England, who are calling for changes to the VAT threshold because of its impact on their businesses. It is a complex landscape, with a number of pressures; the costs of goods, power and premises all have an impact.

You are also right to point to the significant package of reliefs, which is worth an estimated £685 million for 2024-25 and includes the small business bonus scheme. We have a competitive support package for businesses and have gone further by supporting 100 per cent relief for the islands and hard-to-access remote areas of Scotland. We intend to monitor the impact of that and to gather evidence on whether the reliefs are working as intended.

I might be wrong, but I suspect that the reliefs will probably not continue in England beyond this year. Rather than having stop-and-start reliefs, we have committed to working with the sector to look at what we can do to give long-term, sustainable support. That would be better than having a cliff edge at some point in the near future, which would not be helpful.

The Convener: That leads me on to something that I was not going to ask about, because other colleagues will probably want to come in on it. You have talked about whether reliefs will be retained in England. A lot of people have asked about whether the council tax freeze will be baselined into the local government settlement. Will that be the case?

Shona Robison: Yes. I confirmed in a letter to local government a couple of weeks ago that the council tax freeze will be baselined into the settlement.

The Convener: Will local authorities that accept the 5 per cent council tax freeze benefit from having money redistributed from other local authorities that do not accept it? For example, if half the councils accept the freeze and half do not, will those that do not accept it get that money? It would be £70 million if half of them did not accept it. Would that money be given to the local authorities that accept the freeze?

Shona Robison: I have not made a decision about that. I am optimistic that all the funding will be utilised for its intended purpose. We have not made decisions about how remaining funding will be distributed.

The Convener: Thank you for that.

In paragraph 95 of our report, we raised concerns about the affordability and sustainability of the social security budget, which is growing inexorably. I am not making any comment as to whether that is a good thing or a bad thing; I am just looking at the finances. One thing leapt out at me in your response. You said that

“the Scottish Government will ensure that there is budget cover within the overall Scottish Budget envelope”

to cover social security. Is the Government saying that the social security budget is sacrosanct in that, regardless of how demand grows—or reduces—the Scottish Government will meet it?

Shona Robison: I am not sure that I would put it in those terms. Social security funding is a key priority and an investment for us. It has clearly been an area of growth, as we introduce new benefits and make changes to existing ones. As you are well aware, that has led to significant expenditure and commitment beyond the block grant adjustment from the UK Government.

Important work is being undertaken on longer-term sustainability to ensure that social security funding can continue to deliver what it needs to deliver. That will mean ensuring that there is efficiency, that measures are effective, that the decision-making processes are as good as and as effective as they can be, and that the new benefits, in particular, are delivered in a way that is fair to everybody. We need to scrutinise delivery of social security, and we need to ensure efficiency and effectiveness within the system.

Is there an open cheque book? If that is what you are asking me, the answer is no. Social security funding is a priority, but we need to ensure that it is sustainable in the long term, so a lot of work is being undertaken in that respect. As we recognise, and as you and external organisations will point out to me, the future growth of that requirement is a key pressure on the Scottish budget, and we need to be aware of that.

The Convener: I think that more colleagues will wish to ask about this area, but I will first touch on one aspect, which is covered in paragraph 102 of our report, regarding

“how the Scottish Government has, as intended, prioritised its spending towards supporting the delivery of a fair green and growing economy.”

I was struck by what your response says. At the bottom of page 9, it states:

“The Scottish Budget also commits to exploring future multi-annual funding for employability services, in recognition of the benefits of greater certainty for those planning services and the people accessing support.”

We have called for multiyear funding settlements; I am well aware that the UK Government does not give multiyear settlements. In fact, we had an autumn statement in November, and we will now have a spring statement in March, so I realise that it is not easy to pin those things down, but that area of the Scottish budget almost jumps out as being the one with long-term funding. Why is that not the case in other areas? People in local government have been calling for long-term multiyear funding, which would be more efficient and would allow councils to plan better.

Shona Robison: We recognise that employability services are often delivered by third sector organisations, and I have a lot of sympathy for the third sector more broadly, and its call for multiyear funding.

There is a trade-off. In my discussions with third sector organisations, they often say that they are more concerned about multiyear funding than about the quantum: knowing how much they will have over time and being able to retain staff are really important. I get that, and I am sympathetic to that. We have tried to move, along with third sector organisations, to consider whether or not we can provide certainty over more than one year, at the very least, when finances are tight.

Doing that for large areas of spend such as local government would be very challenging, in the light of our having only year-to-year budgets at the moment. I would not want to give a false premise for almost a third of the budget. If we made assumptions that were just not correct, because we were basing them on speculation and did not know—we, too, have only the one-year horizon, and fiscal uncertainty at the moment is huge—that would not be helpful for a huge area of spend like local government.

However, that is easier to do for smaller areas of spend in which the margins of change can be managed more effectively. The third sector is a good area to try to give certainty to because, as I said earlier, third sector organisations sometimes struggle to hold on to staff when contracts are coming to an end and there is no certainty about funding. I am very sympathetic about that.

The Convener: That would be very welcome, and the sooner it could be introduced, the better.

Enterprise is obviously an issue. If one were to read the response without actually looking at the budget, one would think that everything was pretty hunky-dory in terms of the Government prioritising enterprise. However, what is said in the response

is not really reflected in the budget figures. For example, in response to paragraph 102, you said:

“we have prioritised funding for the enterprise agencies to the extent possible given the extremely challenging settlement.”

You said “to the extent possible”, but I am looking at a 15 per cent reduction, which is pretty harsh. If we look at the overall settlement, the Scottish Government’s budget has not been reduced by that. The committee is of the view that we need a widening and growing tax base, which you refer to in other areas of your report. It seems to me and colleagues that 15 per cent is a pretty severe cut at such a time.

Shona Robison: We have allocated more than £307 million to the enterprise agencies in 2024-25. We have been clear that, because of the challenging funding position, we will have to be really clear about what the priorities are, and we will have to be clear that the agencies will need to focus on the things that are absolutely critical. I guess that it comes back—

The Convener: Surely they do that already.

Shona Robison: We ask the enterprise agencies to do a lot of different things, which struck me when business leaders whom I spoke to talked about a six-page letter that had gone to one of our enterprise agencies, asking them about the things that the Scottish Government asks them to do. We need to be more focused on and sharper about what the priorities are, particularly in the next year and the immediate future.

To be blunt, the discussions that we are having around health, police and fire services are pretty limited, which you can see if you look at the budget lines for front-line services. That is probably because, in terms of where the money is going, I have focused on and prioritised front-line public services. That has meant really difficult budget decisions elsewhere to make the budget stack up. Is that what I would want to have done in an ideal world? No, but given that money is tight, we have had to prioritise front-line public spending. That has meant that we have had to constrain funding elsewhere, and it means that our enterprise agencies will have to utilise that £307 million in a careful and targeted way to align to the priorities.

There are, in the budget, elements of committed funding for our priorities—for offshore wind, for example—and elements where we have made additional investments. However, it is a tough budget for our enterprise agencies. There is no getting away from that, and we have to be clear about what we are asking them to do with that money.

The Convener: I will let colleagues in soon, so I am not going to ask many more questions or wade through the whole report.

In response to paragraph 112, you said:

“we have prioritised funding for the Scottish National Investment Bank.”

However, I do not see how that statement can possibly bear scrutiny when there is a reduction of 28 per cent in its funding. That cannot be classed as prioritisation by any measure. I would have thought that that organisation, which is required to lever in private funding, could get a bigger bang for its buck. I fully appreciate the need to spend money on public services, but if you are not generating additional wealth, you will not be able to do that for long. That means, in effect, that, next year, we will be in the same, or a worse, position. How has the Scottish Government prioritised the Scottish National Investment Bank if the funding is falling so dramatically?

11:00

Shona Robison: We have given the SNIB the vast bulk of the financial transactions that we have available to us. However, remember that, as we have discussed previously, UK Government financial transactions have gone off a cliff. That is unfortunate, because the two areas of spend for financial transactions have traditionally been the affordable housing supply programme and the SNIB. We have prioritised the SNIB for the financial transactions that are available to us. That means that the affordable housing supply programme has less available to it in financial transactions.

The supplementary estimates that I referred to indicate a £64 million reduction in financial transactions that we will have flexibility to manage in 2024-25. That will heap pressure on the areas of the Government that use financial transactions. The additional pressure of managing that further reduction in financial transactions is now in the pot. We will have to assess that once we see the full picture in the spring budget on 6 March.

I make the point that FTs are a useful source of funding. We have traditionally utilised them well in the two areas of spend to which I referred. When they are significantly reduced, that has an impact. Because of the capital position—a 10 per cent reduction in capital availability—we are not able to supplement the reduction in FTs with traditional capital. Those things have an impact, and that is the impact that they are having. If the position changes in the spring budget, we will want to revisit it, because we recognise the importance of the SNIB.

The Convener: You have also talked about how important it would be for the spring budget to

reverse some of the reductions in capital allocation. Although many commentators managed to avoid mentioning the reduction in the Scottish Government's capital allocation—surprise, surprise—the percentage reduction in the housing budget has raised many eyebrows at a time when there is serious pressure on housing demand in Scotland.

Shona Robison: The biggest reduction is in financial transactions. The capital reduction is about 13 per cent. As I said, a priority is to re-establish the capital element. It is difficult to do that for financial transactions, and it is more difficult now that we have a further reduction in financial transactions to manage in 2024-25. That affects areas that have been a priority for the committee—the SNIB and the affordable housing supply programme. Reductions in FTs are absolutely the worst thing that could happen.

I will carefully examine the position after 6 March. We have called for additional capital. If you translate the percentage reduction into cash, you will see that it is £1.6 billion less to spend by 2027-28, which is about £540 million a year. That is a lot of investment in affordable housing, health infrastructure and anything else. It is a lot to absorb, so we need the position to be reversed.

We will also consider our position once we get to the end of this financial year, and we will look at our borrowing position. We need to look at all that in the round. I will want to come back to Parliament in the light of all that and consider whether any of the positions can be changed in-year.

The Convener: Flexibility is, therefore, important. One of the things that the local authorities in my constituency raise with me directly is inflexibility in teacher numbers. We know some of the politics behind that, but North Ayrshire Council has 1,000 fewer pupils than it had four years ago and now has a ratio of one teacher to 12 children. It says that it is madness to spend additional money on new teachers when it already has more than enough teachers. It would rather spend the money on educational psychologists, support staff and so on, which it cannot afford to do because it is forced to spend the money on teachers.

That issue is also affecting other local authorities across Scotland. The money may be ring fenced for education, but local authorities should surely have the flexibility to decide the appropriate way to spend it locally.

Shona Robison: Let me say a couple of things about that. Clearly, Parliament has taken a lot of interest in closing the poverty-related attainment gap, and it is our firm belief that teachers play a crucial role in our ability to do that. We are

investing £1 billion in the Scottish attainment challenge in the current session of Parliament, and we recognise that the teacher workforce is at the heart of that. However, there are other important supports that are provided through schools and other agencies.

You make the point that the position on teacher numbers is not universal across Scotland. What do we do about that? The offer to the Convention of Scottish Local Authorities has been the education assurance board. We would like to get to what we could describe as a single point of truth on what the teaching workforce needs to look like over the next few years in order for us to get to numbers that more accurately reflect the fact that there are differing positions. The numbers are growing in some areas. Overall, the pupil roll has increased by more than 30,000 over the past decade, so it is not true to say that the overall position is down. However, there is variation across the country.

Establishing that board and being able to look at the actual workforce numbers that are required will enable us to align more closely with what is required in order to maintain teacher numbers in the right areas. That is the key missing bit for us. That board needs to be established and that work needs to be taken forward.

The Convener: Rather than having a board, it might be easier to let local authorities do what they think is best for their areas with the resources that they have, but I will move on.

Shona Robison: On that point, I note that the education secretary will, no doubt, be asked questions in Parliament about the number of teachers—

The Convener: That is why I said that there is politics involved—

Shona Robison: —in relation to the programme for international student assessment results.

The Convener: I am well aware of that, but the Government has to do the right thing. We all know that Opposition politicians will stand up and say, “There are X number fewer teachers than there were a few years ago,” but the way to defend the position is clearly by having improved outcomes because schools have the right mix of teachers, support staff, psychologists and everything else. The attainment challenge is about not just teachers but the whole structure in a school.

Shona Robison: I agree with that.

The Convener: I will move on, because colleagues want to come in. In paragraph 144 of our report, we requested

“an update on when the Scottish Government will seek to schedule a parliamentary debate”

on the long-term sustainability of Scotland's finances. The response says:

"The Scottish Government continues to support a debate ... on the long-term sustainability of Scotland's finances as confirmed by the Deputy First Minister on 3 October 2023."

That was five months ago, but we still do not have a scheduled date.

Let us be honest—some of the debates that we have had in the chamber have not exactly been thrillers. I have been in the chamber many times when the Presiding Officer has said, "I will allow the member a very generous six minutes," because there is no great enthusiasm to speak. Debates that could last an hour are being extended to two hours and 20 minutes or whatever, whereas debates such as the one that we have requested, which are important, are not being scheduled.

Shona Robison: I am happy to schedule that debate, but we need to see the spring budget first. My suggestion is that we consider the matter alongside the medium-term financial strategy, which has that longer-term outlook, but I agree that we need to go beyond that in looking at some of the pressures, such as social security.

I have no issues with scheduling that debate but it needs to be done in a helpful way, which looks beyond the day-to-day debates that we have with one another in the Parliament about spending on this or that area. I would welcome the ability to look beyond some of those day-to-day debates. I am happy to commit to the time for that debate, but let us make sure that we are in full command of all the information that we need and have it in front of us, which will be beyond the spring budget. The offer is to have such a debate around the time of the medium-term financial strategy, if that is helpful.

The Convener: There is a lot more to cover, but we have a full house, so I will open up the discussion to colleagues.

Liz Smith (Mid Scotland and Fife) (Con): Cabinet secretary, in your response to paragraph 40 of our report, you said that, in relation to looking at the impact of tax policy changes on the wider economy, you have been using

"a range of evidence including: real-time economic data"

and

"formal evaluations".

You give one example of a formal evaluation, which is the income tax evaluation of the 2018-19 reforms. Using the statistics that you have received, what are the other formal evaluations of behavioural change and the impact of tax policy change?

Shona Robison: We look to make sure that, when the SFC is giving us the advice and doing the analysis, any impact that our tax decisions may or may not have is built into the SFC's assumptions. The SFC has described the change as "not economy moving" over its five-year forecast horizon.

I mentioned HMRC, which is helping us to develop the evidence base on priority areas of research interest, such as behavioural change, which includes things such as cross-border mobility. We will publish further information on that later in the year. That will be important, because HMRC is able to drill down more due to the information that is available to it. If other evaluation comes from independent analysis and from independent bodies that comment on this area, we always look at that as well. We draw from a range of sources. The SFC is fundamental, however, because it can analyse what we intend to do and whether, in its view, our proposal would have an impact on things such as behavioural change.

Liz Smith: It is, of course, the decision of ministers as to what changes to make to tax policy.

Shona Robison: Of course.

Liz Smith: In your response to paragraph 41 of our report, you are clear that the move to the five-band system had

"a relatively negligible impact on the size and growth rate of the economy in the short-term."

What long-term analysis has the Scottish Government done on the basis of the information that the SFC has provided and other financial information?

Shona Robison: That is why it is important that we look at the HMRC data. In some ways, we will need to track whether there is behavioural change from year to year. We cannot foresee what effect a tax policy intervention will have in five or 10 years, because the data on behavioural change—if that is what we are talking about—will only emerge as and when it emerges. That is why the HMRC data is important.

There will also be National Records of Scotland data on migration. At the moment, we have positive in-migration of around 7,000 people a year in the working-age population, and we will keep a close eye on whether there is a shift in that. Inevitably, the data is not forward looking because data, by its nature, looks back on what has happened. It is important that we continue to look at the trends. If there is a change in trend that indicates that there is a different direction of travel, we would want to look at that very carefully.

11:15

Liz Smith: Many people would want to see that evidence being used as the basis for the decision making. If that evidence is not being compiled until after the decisions are made, it puts the Scottish Government in quite a difficult situation. We have seen the reactions from the business community, in particular, and many people feel that the evidence in relation to the changes that have been made is not being compiled. There is a great worry that some of the behavioural changes that will happen could be detrimental to the economy.

Shona Robison: That evidence is being compiled. The SFC will do an analysis of what it believes the impact to be, and we will track it through real-time data from HMRC and look at the trends to see whether there is, in fact, any impact. That is the point that I am trying to make. HMRC is very important in all this, because it has the data on whether there is behavioural change and it will be able to disaggregate that in relation to the various bands of taxpayers.

Liz Smith: I do not doubt that. It is the fact that that is not going to be compiled until after the decisions have been made that is the issue.

You also said that engagement with stakeholders, including some of those in the business community, has been very important. Who was it in the business community who was supportive of your income tax changes?

Shona Robison: We meet business leaders and representatives of the business community regularly. We talk about the impact on them of not just our income tax policy but a range of policies, including areas of UK Government tax policy, and they express a range of views. Do businesses want to pay more tax? Probably not, in the main, but that is the position with VAT, as well. Businesses are saying that they want changes to the VAT regime for the same reason.

With the levers that are at our disposal, taking NDR as an example, we had a very difficult decision to make around whether to put that resource into business tax cuts. The retail, hospitality and leisure sectors would, of course, have wanted us to make that choice, but I think that they also understand—certainly, the representatives of the hospitality sector that I met understood—that we had made a decision to invest that in public services. You cannot invest it twice, so they might not have agreed with the decision, but I think they understood why we had made it.

Liz Smith: I will come to retail in a minute. Were there people in the business community who were supportive of the Scottish Government's tax changes?

Shona Robison: The business community will give its view, as a community. As individuals, I am sure that there are business leaders who believe in progressive taxation—I have no doubt about that, at all. The business community will represent itself in terms of wanting lower taxes for its businesses—I have no doubt about that—and it will make those representations, whether they are about business taxes or VAT.

However, as a Government, we have a judgment to make about how we fund public services. If we reduce taxes for business—or, indeed, income tax—that means that there is less money for public services. That is the balance and those are the decisions that governments have to make, and we have decided to invest in public services through the tax decisions that we have made, whether on income tax or business taxes.

Liz Smith: The business community has, almost universally, not been supportive of the changes because—

Shona Robison: They are users of public services as well, of course, and I think that they recognise the importance of investing in public services.

Liz Smith: Of course they are, but they are also the ones who can stimulate economic growth.

We received a submission from the Scottish Retail Consortium. It said that it was absolutely flummoxed as to why retail in general, and one sub-sector of retail in particular, has been “singled out” for the potential business rate surtax, which is unfair and inequitable. Will you comment on that?

Shona Robison: I have been very clear with the retail, hospitality and leisure sector when I have met organisations or, indeed, individual businesses that the choice in what I did with the £260 million out of the £310 million of consequential was between investing it in public services or business tax cuts, and I could not in all conscience not invest the money in public services, primarily the NHS. As Liz Smith will be aware, we hear day in, day out from her own back benchers calls for additional public spending in many areas, including the NHS. I suspect that, had I used the £260 million to fund business tax cuts for retail, hospitality and leisure, I would have been answering questions either here or in Parliament as to why there was less money for front-line public services.

Ultimately, these decisions have to be made, but in a constrained fiscal environment where money is tight, I cannot in all conscience not give the money to the NHS rather than business tax cuts. It is for others to say whether they would have made different choices and what the impact would have been on public services.

Liz Smith: I am sorry, but I want to bring you back to the business rate surtax proposals that I asked about. We have received a detailed submission from the Scottish Retail Consortium that sets out somewhere in the region of seven or eight very serious objections to the surtax's possible introduction. There are two things that I would highlight, the first of which is its bitter complaint that, when it came to the discussion about the new deal for business, the Scottish Government said that there would be "no surprises". However, this has come as a complete surprise as an announcement without warning.

Secondly, the consortium has set out some pretty substantial concerns about behavioural change. On what basis have you modelled the surtax's potential impact?

Shona Robison: Forgive me—I had not realised that you were talking about the public health supplement, so let me address that issue directly.

The commitment is to look at and explore the potential of introducing a public health supplement, which is something that was obviously introduced previously. As part of that process, we have had some early engagement with the very business organisations that have been talked about and have said directly to them that we want to look at any evidence of impact that they can provide. We are engaging with them; I have met them directly, as have other ministers, and we will continue to have that dialogue with them. Clearly, other organisations, not least public health organisations, will have a different view, and we will look at all that in the round before making any decisions on the 2025-26 budget position. That early engagement was one of the commitments that was made in the new deal, and it is now under way.

Liz Smith: This will be my final question, cabinet secretary. On that point, the Scottish Retail Consortium has said that, according to the budget document, the tax, should it come in,

"is about plugging a shortfall in the devolved finances"

but the Scottish Government is now putting it forward as a tax that would be "hypothecated for public health". In fact, you have just mentioned its title—I think that you said that it is a public health supplement.

Can we just get this clear? Is it the intention to bring in this tax as part of a public health agenda, or is it simply about trying to plug the big black hole in the Scottish Government's finances?

Shona Robison: Of course, any gap in the public finances is due in large part to decisions made by the UK Government with regard to our financial position, and that could be addressed in

the spring budget on 6 March if the UK Government so wished.

The measure is, I think, important, with its focus on public health and, specifically, on raising additional revenues to support our approach to tackling public health challenges, but I stress that no decisions have been made on definitely taking it forward. What we are doing is consulting at an early stage on what the evidence is telling us and asking the business community itself to provide some of that evidence. That engagement will continue.

Ross Greer (West Scotland) (Green): I will follow up on Liz Smith's line of questioning around the public health levy. The Scottish Retail Consortium made the point that, from its perspective, the levy targets a particular sector of retail, and that sector is supermarkets that sell alcohol and tobacco. As you have explained, it is a public health levy, and alcohol and tobacco have significant public health impact.

You might not have the figure to hand, but do you have a rough, ballpark idea of how much the negative health effects of alcohol and tobacco cost our public services? How much do they cost the NHS every year?

Shona Robison: I do not know whether I have that figure to hand, but from my days as health secretary I remember that it is very significant. When I announced the minimum unit pricing regulations a few weeks ago, I provided a couple of figures about the impact. I cannot remember them off the top of my head, but we can certainly get that for the committee, if it would be helpful. The impact is significant.

We know that Scotland's relationship with alcohol goes deep and is very challenging. There is not just a health impact; there is an economic impact from lost days at work and so on. It is considerable.

Ross Greer: Is it not the case that, with there being no public health supplement, the difference from the minimum unit price is being pocketed directly by the retailer? There is no current mechanism for that amount to be reinvested in public services to create an additional public health benefit. However, if we decided to introduce a public health levy, that would ensure that what is now just excess profit going straight into the retailer's pocket is reinvested in the services that are used to support people who are suffering the consequences of alcohol and tobacco use.

Shona Robison: As you pointed out, there is no mechanism to harness any profits relating to minimum unit pricing. One of the challenges with that is being able to separate out how much of it is in relation to minimum unit pricing. The sector will

tell you that that is a challenge, which is a reasonable point.

I want to convey today that there are strong arguments on both sides. We want to listen to them all and make a considered judgment well in advance of 2025-26 on what the right balance is to ensure that we are fair to the sector, which has no doubt had its challenges, while also recognising the public health challenges that you have just alluded to, which continue to put pressure on our health service and our economy.

Ross Greer: Switching back to another area, I was quite concerned by what you said in your opening statement about the cut to financial transactions in the supplementary estimates. Bearing in mind that that cut is on top of what was already a very bleak picture on FTs, have you had any engagement from the UK Government on why that is its current direction of travel on FTs?

Shona Robison: The position for us is very difficult, given how our budget is constructed and the process for our budget through the year. This situation highlights and demonstrates that our fortunes, or otherwise, are wholly dependent on decisions that are made elsewhere. It does not make for a sensible set of arrangements to enable us to set a budget.

For example, the in-year reductions that we had to make were very painful and difficult. The Welsh Government has also made the point that, if we knew how we were going to end up at the end of the financial year and had an indication of any in-year adjustments that were going to be made, perhaps some of those decisions would not have to be made. Likewise, if we had known that financial transactions were going to be reduced, we would have been able, perhaps in year, to have made some account of that. However, we are now left with having to look for flexibility from the Treasury to manage that reduction in FTs next year. At the very time when FTs and capital have been cut, we have had this surprise added to the mix, which has come along at the last minute. That highlights the fact that the structure and the system are a fundamental problem. That is what needs to be resolved, rather than our trying to manage the changes so late in the year.

11:30

Ross Greer: In a somewhat similar area, there have been reports over the past couple of days—I think that a question on the subject has been selected for this afternoon, and a question on it might be put to the First Minister later in the week—on the decision to freeze additional capital spend in the health portfolio for the remainder of the current financial year. Will that have a knock-on impact on the capital allocations in the draft

budget for next year? Will you say a little more about the context and why that decision has been taken for the remaining few months of the current financial year?

Shona Robison: Until we know the position at the spring budget in relation to any changes to capital one way or the other, we really cannot start projects that we might not have the money to finish. The £1.6 billion that, at the moment, we will not have between now and 2027-28 would have paid for a lot of health centres, to be frank. For context, I note that that is the cost of a major new hospital. We talk about percentages but, in cash terms, £540 million is a lot to lose every year in the run-up to 2027-28.

Our major call on the Treasury—and our number 1 priority—has been a reversal of that capital position at the spring budget. We need to see that before we can make a judgment about the infrastructure investment plan; after all, it would not be a good use of funds to start projects that we cannot finish. However, I am an eternal optimist and I hope that, on the other side of the spring budget, I will be in a position to revisit the position and set out an infrastructure investment plan that will take some of those projects forward. At the moment, though, I cannot give that assurance, because I do not know what the position will be.

Ross Greer: My final question is on something that was touched on earlier by, I think, the convener—that is, the decisions on funding for the enterprise agencies. I completely understand the need, ultimately, for the budget to balance, which makes it challenging to take the most strategic decisions in each portfolio area. However, I am particularly interested in the funding for the enterprise agencies. I have been frustrated for a long time that Scottish Enterprise, in particular, spends money on the film and television sector even though the public sector expertise with regard to support for that sector sits not with that agency but with Screen Scotland, which is part of Creative Scotland.

In this year's budget, Creative Scotland has an uplift, and Screen Scotland, as part of that agency, will benefit from that. On the other hand, Scottish Enterprise funding has gone down. We could argue that there is a level of strategic reallocation, given that we will get better value for money from the amount being deployed by Screen Scotland—where the expertise is—than from its being deployed by Scottish Enterprise. However, I do not get the impression that there was a strategic decision as such; it was more that somebody needed to be at the sharp end for the budget to balance overall.

Was there any discussion about that money? That is one example, but there are loads of other

examples of public bodies with overlapping responsibilities for various sectors. Do cross-portfolio discussions take place to identify where we will get the best value from money that is transferred from the public sector to the third and private sectors?

Shona Robison: That happens more now, but there is still room for improvement. There has been a more thorough deep dive into each portfolio and each public sector body to look at what they do, what they should do and where there is overlap or duplication. There is still, without a doubt, scope to do more in that territory and question which public bodies are best placed to take forward particular areas of policy.

As for your point about Creative Scotland, I concede that we probably could do more in that area as part of the public service reform agenda. I am really keen to explore not just who does what, but whether more can be extracted from organisations working more closely together. At the end of the day, it is all public money, and we need to make sure that organisations, including Government departments, come out of their silos to work together more effectively. I think that there is more that we can do in that space.

Michelle Thomson (Falkirk East) (SNP): Good morning, cabinet secretary. Thank you for joining us.

Before I move on to my more substantive questions, I want to raise a couple of wee quick points, the first of which is about capital expenditure. Given the significant cuts that we face—it is anticipated that capital expenditure could be cut by 20 per cent, in real terms, by 2028-29—will you consider scheduling a debate on the issue? Ironically, people outside the Parliament have, for the first time, become alive to the implications of the capex cut, because of what it means for treatment centres. As you know, the subject is of great interest to me and one that I have consistently asked about. Will you consider scheduling such a debate? I think that it would be valuable.

Shona Robison: I am certainly happy to consider that. Again, the question comes back to timing. Should we hold such a debate before we know what the full picture will be following the spring budget on 6 March, or should we wait until we have the full picture? That is a judgment to be made, but I am certainly open to thinking about that.

It is important that we have an honest debate on the matter, because questions will undoubtedly be asked in Parliament about the implications for various projects. That is understandable, but the truth of the matter is that £1.6 billion cannot be removed from capital investment without its having

an impact. If that is not reversed, there will be an impact—the question is where it will fall.

Michelle Thomson: Exactly. Having such a discussion and fleshing out the position of all the political parties could be helpful.

My next question comes on the back of the convener's comments about single-year versus multiyear funding and what the Scottish Fiscal Commission had to say about that in its fiscal sustainability report. Does the Scottish Government collect any statistics on the sunk costs of doing all the monitoring and assessment on a year-by-year basis? It strikes me that that is not only inefficient but extremely expensive. Do you collect any stats on that? In effect, it is money lost.

Shona Robison: You make a fair point. I cannot quite see what the solution would be, unless we could genuinely move to multiyear funding. However, that would involve our knowing that we would be able to provide such funding, because we had an assurance that we would receive multiyear funding. Without knowing that, we would find it difficult to work in a different way.

Your point is a reasonable one, though. Alison Cumming might be able to say more.

Dr Alison Cumming (Scottish Government): We are not able to quantify that at present, but we can look in a qualitative way at the extra effort that the single-year approach involves and how it takes us away from taking a more medium-term approach.

Michelle Thomson: It strikes me that it would be helpful to look at that in a quantitative as well as a qualitative way, because it exemplifies the inefficiency that plays into some of our other costs.

Shona Robison: We will certainly take that point away and consider it.

Michelle Thomson: I have previously asked about the ScotWind funding. To be honest, I was a wee bit disappointed when I read the Scottish Government's response to the relevant part of our report. It said:

"Consideration will be given to how future revenues will be deployed."

The point that I was trying to make was that I do not want consideration to be given to how future revenues will be deployed. First, I want there to be recognition of the importance of setting up a sovereign wealth fund. Secondly, I want consideration to be given to costs, implications and process. Thirdly, I want a specific commitment to be made that fiscal rules will be set.

Although I accept that you cannot bind your successors, I would like to hear a commitment that, this session, you will set aside, say, 5 per

cent of all moneys. That would recognise the revenue challenges that you face today and also look to the longer term to provide the building blocks for fiscal sustainability. Will you comment on the response that I highlighted, as it strikes me that it misses the point altogether?

Shona Robison: I take your point. It is not an unreasonable request, and we could give it further consideration, but any such amount would have to be very modest, given the fiscal position. I can envisage a scenario in which we are in Parliament, being asked questions about resources in the here and now, while at the same time, we have this pot sitting. However modest it might be, it would be a focal point, and we would be asked why we were not deploying it for X, Y and Z. Those are the very real debates that we have all the time around the here and now. If we were in a different fiscal position right now, what you suggest would be a very wise thing to do and a constructive way of building resilience. It is one of the few genuinely flexible areas of funding that is not constrained by all the machinations of the fiscal framework and so on.

At the Net Zero, Energy and Transport Committee, we had a discussion about whether you could align with the £4.7 billion the resources that are already being deployed and are having a positive impact on our climate change goals. You could cut that money however you wanted to in relation to investment in offshore wind commitments or in some of our other positive action on climate change, and that is something that I will continue to consider.

If, in the short to medium term, we find ourselves in a better financial position, your suggestion will have some merit, but I feel quite constrained at the moment. When public services absolutely require every pound of investment, I find myself quite torn between the attractiveness of doing what you suggest and having that money available in the here and now.

Michelle Thomson: If one had to put a wee bet on it, the evidence suggests that the constrained environment for public services will continue. To me, that suggests that there is a greater need to do something like that, because it is about fiscal sustainability.

My next question is on social security spend, which is another area where there are concerns about long-term affordability and sustainability. Ironically enough, having raised the point about the longer-term picture, I saw when I read through the response that it deliberately referenced

“monitoring all areas of expenditure during the year”.

That is exactly not what the point is; the point is that, when we extrapolate the numbers, we see that it is not sustainable, particularly given that it is

a demand-led area. Therefore, regardless of whether the approach is responsible and capable, the point is that you are looking at expenditure only in-year. As a result, I was surprised by that response.

This ties in with earlier comments about the Scottish Fiscal Commission’s report on sustainability, but do you recognise the very real concern that, when we ask about the long term, your answer that you will take a responsible approach in-year does not provide confidence? That is the issue. Arguably, we have been taking a responsible approach in-year, every single year, but that is not the issue—the issue is the projection that has concerned the committee so much.

11:45

Shona Robison: I alluded to this earlier, but I accept that we need to look at what we can do in relation to that projection, and how much of it lies with decisions on efficiency, effectiveness, decision making and eligibility. All of those things are being looked at in relation to the social security system that we have at the moment, but the system is projected to continue to grow, because we are still in the process of finalising the shift of benefits. That journey is not complete.

The point about the social security system being demand led is fair, but it gets us straight into some quite difficult discussions, such as what the system will look like in five or 10 years and whether we need to review some elements of it to ensure that it is fair to everybody. Those decisions have not been made, but inevitably Parliament will have to debate that. We also need to ensure that decision making on the supports that are available at the moment is not completely out of kilter with systems that have been inherited, as that could become unsustainable.

Social Security Scotland is all over some of those issues. With the adult disability payment, for example, it is looking at consistency of decision making to ensure that no inconsistencies arise that could lead to unfairness in the system. It is also ensuring that the position will not become unsustainable, because of an exponential growth in awards, particularly those at the higher level.

However, although all of those levers can be deployed in the shorter term, they do not necessarily address longer-term growth. Parliament will, usefully, have a view on where social security sits in our budget. It is now a big chunk of it—in fact, it is one of the key pillars alongside health and local government—so where should it sit in future? If it is going to continue to be such a big chunk, as I suspect it will, that will mean taking decisions elsewhere.

Just for completeness, we could look at reducing demand on social security by using some of the other levers that are available. For example, we could avoid people falling out of work and into social security and becoming dependent on the adult disability payment, but we need to work out what we can do further upstream to try to interrupt that. It is quite a challenge, but we need to give it more attention.

Michelle Thomson: My last question concerns affordable housing, which I brought up before. I picked up on something in the wording of the Government's response. In the light of the commentary made about capex—I strongly agree with that commentary, because it is a significant challenge—and FTs, the response says:

"We remain focused on delivering 110,000 affordable homes".

Previously, the wording that was used was that "we remain committed" to delivering 110,000 affordable homes. Is that change an indicator of anything—given the significant challenges around capex and FTs that we discussed earlier?

Shona Robison: There are a lot of moving parts around that. The housing minister has been actively looking at levering additional investment into affordable housing—mid-market rent, in particular—through the private sector, and at how we might be able to utilise some of our funding to create business models that make that more straightforward. We are looking at how we can be imaginative. I am less precious about where the funding comes from to keep on track.

The only point that I would make, I guess, is that the capex reduction is challenging enough, but it also comes hot on the heels of construction inflation at its peak. I think that it was at 25 per cent at one point, and it is never going to go back to what it was previously. As a result, you might have your pot of money, but you are getting fewer bangs for the buck, because of the higher cost basis. That is a challenge even before you get to the challenge of the availability of capital funding, so we are going to have to look very closely at what can be done and what the trajectory of delivery is. If we can lever in external funding sources, that will ensure that we can deliver and keep things on track, but it will be a challenge.

Michelle Thomson: Thank you.

John Mason (Glasgow Shettleston) (SNP): As we have already covered quite a bit of ground, I will try not to be too repetitive.

Earlier, the convener raised the question of our relationship with the UK tax and national insurance system. It seems that the fundamental problem is that the UK has two income tax systems, namely income tax and national insurance, and they do

not relate to each other at all well. Have you picked up any suggestion that the UK Government is even looking at that issue, thinking of combining those systems or anything like that?

Shona Robison: No. I have picked up probably what you have picked up, which is that we are looking at moveable feasts here. There is speculation about further tax cuts; we are in an election year, which is clearly going to be a factor; and we have this major fiscal event on 6 March, which, if you listen to what the press briefings are alluding to, will mean further tax cuts, although others are saying that such a move will not be sustainable. Indeed, the commentary from the Office for Budget Responsibility is that it is definitely not. I have seen nothing to suggest any long-term strategy for any of these issues—it all seems very short term at the moment.

John Mason: That is what I feared. It seems that it does not matter what we do. As long as we have income tax and national insurance as they are in the UK, we have a real problem.

Moving on to another tax, you have commented on council tax reform and made the point that, as we know, there is no agreement or consensus on what should replace it. Some of us are getting a little bit frustrated. After all, we need to do something, but clearly nothing that we do will have 100 per cent support. Is the Government committed to making some kind of change fairly soon?

Shona Robison: Yes, absolutely. You could break this into two parts, the first of which is some of the short-term reforms that have already been taken forward on, for example, second homes and empty homes and which I think have been helpful. However, we have an absolute commitment to examining what longer-term reform might look like and whether we can land in a space of a fundamental reform either to the council tax system itself or, indeed, a new system.

Local government is committed to that, and I would think—I would hope—that there is an element of cross-party consensus that reforms need to be made to the system. Whether we can find that space of consensus, I do not know, but I think that it would be very helpful. After all, whatever we land on has to stand the test of time, be fair, address some of the anomalies and be able to raise enough revenue. All of those are, I think, key elements.

We have the joint working group, which has functioned very well in focusing mainly on some of the short-term reforms. There is no doubt, though, that we need to set out a path to that longer-term reform. It is not going to happen overnight—clearly, it will take a bit of time—but some

destination point has to be agreed and we are keen for that to happen.

John Mason: Given that the last revaluation was 23 years ago, even if it was just a reform of the present system and a revaluation, that would be major.

There seems to be a fairness and equality issue within it. In Glasgow, for example, it seems that property values have gone up more in some areas than in others. They have not gone up so much in poorer areas, such as my constituency, which are, therefore, relatively losing out with every year that goes by.

Shona Robison: All those elements would need to be taken account of in any proposition for any alternative system. Any system of local taxation will have to have a property element—for me, that is important. Trying to reach agreement on a system that addresses those issues will be tricky. There are lots of political challenges within that. I am keen—if there is the space in Parliament, for example—to create a bit of consensus on those matters, which would be helpful.

The fiscal framework is important to COSLA and local government. They want to see a reformed system that addresses some of the anomalies that we are all well aware of. That is a challenge. I am keen, as I said, to create a bit of consensus in that space, if possible.

John Mason: You say that the next infrastructure investment plan

“will be published in due course.”

Will that be in May, or some other time?

Shona Robison: It will be after the spring budget, once we have had a chance to look at what that picture looks like and to make judgments about what that means for capital availability. That comes with a caveat or a health warning, in that we could be in a better position than we are at the moment, but we could also be in a worse position, which would impact directly on the assumptions that are made in the budget. I hope that that is not the case, but it is wise to make that caveat.

That is why I came back to the committee's report in the way that I did. If we were to publish it now, prior to 6 March, we would be revisiting it straight away, because of what 6 March could bring us.

John Mason: This question follows on from Michelle Thomson's point about the ScotWind money. I accept the point that it is very hard to start a savings scheme, investment fund, sovereign wealth fund or whatever when we are in real financial challenges. Would a compromise be for that money to be ring fenced for capital

expenditure—not necessarily just for renewables, but housing, roads, railways or whatever? That would be an investment for the future. Although we would not be setting the money aside, we would be saying that it is definitely going to an investment.

Shona Robison: At the moment, that money is supporting the spending side of the budget, without which a difficult budget would have been made even worse.

I take your point. I am not unsympathetic to the suggestions that are being made, and I certainly do not have a closed mind to either your point or Michelle Thomson's point. I am wrestling with the here and now, while also having an eye to the future. There is a bit of a tension, given that I am looking at pounds, shilling and pence in portfolio allocations and difficult discussions and decisions have to be made around that. It is a challenge. However, as I said, I do not at all have a closed mind to the principle of those suggestions.

John Mason: We note that the UK has gone into a recession—whether it is technical or not, it is a recession. We are sometimes told that raising tax somehow damages growth. However, the UK is in a recession—that is, it is not growing—under a Conservative Government, and it has relatively low tax compared with other countries, at 38 per cent of gross domestic product in tax compared with France at 50 per cent, for example. How do you reflect on the fact that the UK is a low-tax economy and is not growing?

12:00

Shona Robison: The Resolution Foundation described it as a “stagnation nation”, with all of the above that you have just described. A number of key indicators show Scotland's position in that very difficult economic and fiscal climate. For example, Scotland's GDP per capita has grown faster than the UK's since 2007. Productivity has grown at an average rate of 1 per cent a year in Scotland, compared with the UK's 0.5 per cent. We are making better progress on things such as the gender pay gap. In terms of inward investment, we are the top-performing region outside London and the south-east, and we had the third-highest wages and gross value added per person when those were last measured, in 2021.

Sometimes a certain narrative about the Scottish economy is put forward by people who seek to portray it in a particular way. I am not downplaying any of the challenges, but the key economic indicators show, over a number of years, a trend in many strengths that underlie the Scottish economy. For one thing, the tax base is up, and that is good. The Fraser of Allander Institute has adopted

“an atmosphere of cautious optimism”

for 2024, and the Fraser of Allander Institute can be quite challenging at times, so that is welcome.

Michael Marra (North East Scotland) (Lab): Earlier, you gave some answers about council tax and the money that is being baselined into the budget for next year. Senior councillors across Scotland are telling me that their financial officers are telling them not to believe you. Is it a problem that trust has collapsed so much that people who are setting their budgets are having to make those assumptions?

Shona Robison: I do not know who you have been speaking to. I speak regularly with local government leaders of all parties, and I have given those assurances to be helpful. I thought that it was important to give certainty on that, not least because COSLA was asking me about the baselining. That is alongside the £45 million, which is contingent on the spring budget showing that that is a positive addition rather than something that leaves us in a negative position.

The relationship with local government has been challenging in this budget process. Probably every budget that I can recall has been a time of tension with local government, and this year is no different. However, one of COSLA’s top asks was about the share of the budget, and I would just reflect that local government’s share of the overall budget is increasing, from 31 per cent to 32 per cent. Despite the challenging fiscal environment, local government has an increasing share of what is a constrained cake, if you like—local government has a bigger slice of it. That needs to be borne in mind.

I will continue to discuss those issues with local government. There is a lot that we are working very positively on. We do not always hear about that in the public domain, but a lot of joint work is going on in a lot of areas that will be good for public services.

Michael Marra: You recognise how difficult this budget settlement is for local government at the moment—

Shona Robison: It is difficult for the whole public sector.

Michael Marra: Councillor Hagmann came to Parliament on 16 January and said:

“There were surprises in the budget. One of the lines that we were working on was that there would be no surprises, but that has not been the case.”—[*Official Report, Local Government, Housing and Planning Committee*, 16 January 2024; c 7.]

You are talking about the basis on which local government had made demands, but you had an agreement with them. This was meant to be a

different year, given the Verity house agreement, but that has really just been ditched, has it not?

Shona Robison: No. The Verity house agreement is really important to COSLA. I met the presidential team just a couple of weeks ago and they stressed, despite the difficulties of the budget and some of the disagreements, how important the Verity house agreement is to them because, apart from anything else, it will deliver a new fiscal framework that will be helpful going forward. The agreement has delivered a range of areas of progress. Again, we perhaps do not hear about them because, inevitably, the areas that get the attention in the public domain are those where there is disagreement rather than those on which there is agreement, but there is huge agreement in a lot of major areas of policy that we are taking forward.

Michael Marra: Councillor Steven Heddle said:

“Despite the Verity House Agreement rhetoric about working together on shared priorities it is the same outcome at Budget time for Local Government in reality.”

He does not really agree with you that there is a big range of other areas. The budget is the core issue right now, and councillors do not feel that they are being treated fairly or being given the truth by ministers.

Shona Robison: Steven Heddle was one of the commentators at that meeting, and despite the difficulties—do not get me wrong; the meetings can of course be robust—he pointed out that there are important areas that councils want to work with us on and that the Verity house agreement is really important to them.

I can look back to many budget discussions with local government and they do take a bit of a pattern. Local government will ask for X amount of money, there will be some difficult discussions, and then we land where we land. This year is difficult. We could say that it is difficult for the whole of the public sector because there is less money.

Michael Marra: The difference this year was to be that there would be no threats. There was to be no saying, “Take this or we’re going to punish you for it,” but that is exactly what you are doing now.

Shona Robison: I will come back to the council tax in a second, but I make the point that, in a budget where there is less money and the size of the cake is reduced, local government literally has a bigger slice of it, with an increase from 31 per cent to 32 per cent. That tells me that, within a difficult financial environment and settlement, local government has been treated reasonably fairly.

If you are talking about the council tax freeze in particular, or teacher numbers, I guess that there is a judgment to make. Local government will say

that the £145 million for teachers should not be ring fenced and that it should be able to spend that money on whatever it wants. However, I suspect that your colleagues in the education portfolio would be the first to ask in Parliament why the Scottish Government had allowed teacher numbers to reduce and why we had removed the ring fencing from the money for teachers. Teachers are a really important part of reducing and eliminating the poverty-related attainment gap. They are not the whole story, as the convener pointed out earlier, but they are an important part of the story. If we put in £145 million to have more teachers, we expect local government to make sure that the teacher workforce is of such a size that it can help to deliver that closing of the poverty-related attainment gap.

The same applies to the council tax freeze. We have put £147 million into helping local government to deliver that. That money is for the council tax freeze, and I do not think that it would be acceptable to council tax payers for us to say to councils, “You can have the money and you can put the council tax up as well.” I do not think that that would wash with council tax payers. The money is on the table and it is for councils to decide. We have already seen a number of councils of all political colours make the decision to freeze the council tax. I know that it is also a policy of UK Labour for a council tax freeze to be supported.

In difficult financial times, we have been fair to local government, but it is a tough budget for the whole of the public sector.

Michael Marra: I will move on. Do you now know what the budget for further education is?

Shona Robison: The budget for further education is as I laid out previously—

Michael Marra: You did not lay it out previously.

Shona Robison: Well, I gave the global amount for higher and further education. If you are asking me whether the Scottish Funding Council has reached an agreement on places with universities and colleges, my understanding is that those discussions are on-going.

Michael Marra: So, no.

Shona Robison: Last year, it was springtime before those discussions were completed, and this year will be no different. Those discussions will be concluded in the springtime and colleges and universities will have the final agreement with the Scottish Funding Council.

Michael Marra: I think that this is the fourth time that I have asked you this question, Deputy First Minister.

Shona Robison: There is nothing different this year from any other year.

Michael Marra: I am sorry—did you say that there is nothing different?

Shona Robison: There is nothing different this year.

Michael Marra: That is not what the college sector is telling me.

Shona Robison: It was spring of last year when the final agreement with the Scottish Funding Council was reached. There is nothing different at all this year with regard to those discussions with the Scottish Funding Council: it was spring last year and it will be spring this year.

Michael Marra: Okay.

Obviously, the flexible workforce development fund is of huge concern to colleges and employers. Since you were last here, there has been an awful lot of coverage about it, and we have had people asking about it, too. What is your justification for cutting that area in preference to other areas?

Shona Robison: Portfolios have had to wrestle with some very difficult decisions, because there is less money to go around. In fact, with the tax cuts that you are proposing, there will be even less—more than half a billion pounds less, I think—to spend on public services. Even with the tax position that we have proposed, which has raised £389 million of additional funding, difficult decisions have had to be made, with each portfolio having to make judgments about the areas that cannot be sustained and have had to have their funding reduced. The flexible workforce development fund has been one of those areas.

Despite that, we recognise that Scotland's colleges are absolutely at the heart of the skills system and will be a major part of things as we move forward. We have the review of the skills landscape, and colleges will continue to play an important role within that.

Michael Marra: The Federation of Small Businesses has also made representations on this area. The evidence that we have been hearing is that this is a budget for growth, but this seems to be a key ask, and it is for a reasonably small amount of money relative to the global budget. Indeed, given that the issue cuts across a variety of different stakeholders on the economic side, I just feel that the move could do with being justified a little bit more robustly.

Shona Robison: There are hundreds of small pots of money across the whole of Government that all add up to a lot of money, and I guess that I took the strategic decision that I was going to prioritise front-line spend on our front-line public

services. That required me to shift money in that direction, which makes things difficult for other areas of spend.

Would we wish it were otherwise? Of course, but when you get less money, there is less money to go round. As a result, every budget has to be looked at, and the strategic priority was front-line spend on our public services. I note that, again at an evidence session, we have not heard quite so much about the front-line spend on the NHS, on the police or on fire, and I suspect that that is because those are the areas where we have prioritised spend.

Instead, what we are hearing about are those areas that have had to take a hit as a result, one of which you have highlighted. If you want to come to our meeting to suggest that that should be the priority that you would like to be addressed and to highlight other areas where we could make changes, I will of course be happy to hear what you are suggesting.

Michael Marra: Moving on to higher education, I note that, since you published the budget, we have had the admission figures for international postgraduate students across Scotland, which show a very significant decline in big parts of that market. What impact is that going to have on the budgets of our higher education institutions?

12:15

Shona Robison: Our higher education institutions will, as ever, have a challenging set of circumstances to wrestle with. One of the circumstances, which members will be aware of, is the restriction on international students. I am not downplaying those factors, which are all at play for universities, but they will have to manage the levers that they have to find a path. Larger universities probably have the ability to do that more readily, and perhaps there are some particular challenges for some of our smaller institutions compared with the larger ones, but I do not downplay the pressures on our university sector. We have supported it as best we can with the available resources for funded university places, and we have given it the best support that we can, given the limitations of the budget.

Michael Marra: You have not lodged any amendments today but, since you made the budget announcement, the circumstances for universities have changed quite significantly. The medium-sized institutions in Scotland are particularly affected, with some running in-year deficits of up to £15 million. That could have significant impacts on their own budgets. Have you had discussions with the sector about how you could flex or assist in any way?

Shona Robison: Discussions with the sector will continue, and of course we want to try and be as helpful as we can, but you are asking me to lodge amendments to take money from elsewhere to give to the universities. If you can suggest where that money should come from, I am all ears.

Michael Marra: To be fair, that is not what I was suggesting; I was suggesting that the circumstances have materially changed. That will affect employment for people in those institutions and it will affect their financial stability. I am asking whether you have had conversations with them about how robust the sector is. That is a pretty reasonable question to ask.

Shona Robison: It is. As I have just said, conversations with the sector take place on an ongoing basis. I have had individual discussions with some institutions as well, and of course the issues you mentioned have been brought to the fore.

Until 6 March, though, I do not know whether the money that we have in the budget now is going to be there, let alone whether we will have any additional funding. There could be a scenario on 6 March in which the UK Government makes decisions that could impact negatively on the funding that we have available. I hope that that is not the case, but we will continue to discuss with those in the higher education sector and others how we can work with them. If there are things that we can do that are helpful, beyond trying to find money that does not exist, then of course we will do them. There may be other things we could do that could be helpful to them.

Michael Marra: Last time you were here, I asked about the £28.5 million cut to universities' teaching budgets. I postulated that dividing that by the amount of money that is allocated per head student would result in 3,900 student placement cuts for Scottish students. You said that you did not recognise that figure at that point, but the question is whether you are going to instruct the Scottish Funding Council—as ministers do—to cut the number of places or to cut the amount that is available per student. Are you any further forward in making that instruction to the Scottish Funding Council?

Shona Robison: As I said, the Scottish Funding Council is in the process of producing the academic year 2024-25 indicative allocations for both colleges and universities—last year it produced those in the spring—which will provide the detail that you are looking for about funded university places. That is expected in the spring of this year, as it was in the spring of last year.

During the last session, we spent a lot of time talking about the 1,200 places for universities that—as Universities Scotland has been very clear—were Covid additional places and were

never envisaged to be there for the long term. It always knew that those places would be reduced, and the timeframe for that was always very clear. We will allow the Scottish Funding Council to get on with the job that it does every year.

Michael Marra: I am not sure that that is how it works, though.

Shona Robison: That is how it works.

Michael Marra: No—what happens is that ministers indicate what the cap is on the number of students who could be admitted. That is a ministerial decision—ministers speak to the Scottish Funding Council about it and a letter is sent. That is the issue of the number of students. As far as I am aware, the SFC is waiting for an instruction from ministers as to whether there will be less money per student or fewer students. Do we know whether ministers have given that instruction to the SFC? The issue is not a matter of negotiation with the universities; it is one for ministers and the SFC, which works for the ministers.

Shona Robison: The Scottish Funding Council will discuss the number of places with colleges and universities, which will be within the overall budget that has been allocated to colleges and universities, but you are asking me about additional money in an environment—

Michael Marra: I genuinely am not. What I am asking you is whether you are telling the universities to cut the number of students or to cut the amount of money per student. That is not about additional money. I am asking you about the process that you are undertaking with the universities via the Scottish Funding Council.

Shona Robison: As I have said, the Scottish Funding Council will have discussions with both sets of institutions about the number of places. The overall budget that has been set is the overall environment that the Scottish Funding Council will be operating in. That budget has already been set out. The figure is there, and that is the context within which the SFC will operate when it comes to those institutions. As I said, as was the case last year, the spring will be when those places will be agreed with both sets of institutions.

It is a very challenging financial environment. It would have been more challenging if the tax decisions that we have made had not been made. You have alluded to the fact that you are against the tax rises and you have said that you would want to cut the intermediate rate of tax, all of which would lead us to having £0.5 billion less money for universities, colleges, health and local government. You cannot talk only about the tax side of things; you have to also address the spend side of the budget in relation to the decisions that you are saying that you would take.

Michael Marra: I am also asking about the competent operation of the system. At the moment, people are applying for university courses and are being offered a conditional or an unconditional place. The difference is that the teaching budget is to be cut significantly, and the universities that are offering conditional and unconditional places do not know how many places they can offer. That is not usual.

Shona Robison: It is—there is nothing about what is happening this year that is different from what happened last year. The position this year is the same and the budget process is exactly the same as it was last year. This year's negotiations with the Scottish Funding Council are no different from last year's.

If you are saying to me that you want more money to be provided for universities and colleges—

Michael Marra: That is not what I am saying.

Shona Robison: You have to decide whether you are saying that you want more money or not; you cannot just describe a problem.

The Convener: I am keen to move on and to take us back to the report.

Jamie Halcro Johnston (Highlands and Islands) (Con): I want to go back to the issues around the enterprise bodies and economic growth. When you appeared before the committee in January, I asked you about the cuts to the budgets for Highlands and Islands Enterprise and South of Scotland Enterprise, and you suggested that they would focus their attention on key priorities. You also talked about key things that matter, key priorities for delivery, key interventions and key sectors for growth. Earlier, in response to the convener, you talked about the enterprise agencies prioritising funding and taking a careful and targeted approach.

However, we still do not know the detail of what you think their priorities and key focuses will be. Their budgets have been cut. What are you looking for them to deliver and what will they now be unable to deliver, given your statement about their important role in driving economic growth?

Shona Robison: The detail of what we ask our enterprise agencies to do will form part of the discussions and the correspondence around the priorities that are agreed with the Cabinet Secretary for Wellbeing Economy, Net Zero and Energy. The point that I was making is that, as ministers, we have a responsibility not to ask organisations to do more with less. That is a fair principle. In order for them to focus on what is key, we would expect them to look at, for example, the key objectives of the national strategy for economic transformation, supporting the growth of

local businesses in their area and all the other key priorities.

There are some things that may take longer for them to do and may have to be done over a longer timeframe, and they may have to pause or stop doing some things. The detail of that will be for local partners to discuss and the Cabinet Secretary for Wellbeing Economy, Net Zero and Energy will be involved in setting the strategic direction of travel. It is not for me, as the Cabinet Secretary for Finance, to say what they should not do. I am just making the point that we recognise that, with constrained resources, we cannot ask them to do more with less.

Jamie Halcro Johnston: Given what you have said today and previously, do you accept that our key enterprise bodies—Highlands and Islands Enterprise and South of Scotland Enterprise—will be less able to drive economic growth and support businesses than they have in previous years?

Shona Robison: What I am saying is that they will have to focus what they are doing on key priorities, and they might have to do less of some of the things that they are or have been doing so that they can focus their resources on key objectives.

The brutal truth is that our strategic priority is to invest as much as we can of the limited resources that we have in front-line public services. That means difficult decisions having to be taken elsewhere. If you have fewer resources, you cannot give everybody the same amount of money—you have to prioritise, and I have made it very clear throughout this evidence session that I have prioritised public services. That has meant having to make difficult decisions, whether on the enterprise agencies or on universities, because otherwise I would have had to cut front-line public services.

Those are the difficult choices that we have had to make. We need to be clear on the priorities that we expect the enterprise agencies to deliver within the resource that they have. There might be things that we would have liked them to do, but they might have to take longer or be paused or stopped.

Jamie Halcro Johnston: Taking on board what you have said about prioritising in areas where we have made cuts, I think that we accept that the enterprise agencies are going to be less effective and less efficient at driving economic growth. As the committee's report highlights, the question is: how will you monitor the impact of the cuts on their ability to deliver economic growth?

Shona Robison: We would expect that to be done through the normal monitoring arrangements for our enterprise agencies. We would expect them to be prioritising economic growth and

support for businesses, including new-start growth, so there are other areas where they might need to reduce the work that they do. We would expect enterprise agencies to be clear about the objectives that they are setting in the discussions about what they are doing and how they will be monitored by normal civil service processes of oversight as well as ministerial oversight, and to be measured against those objectives.

Earlier, I referred to business leaders whom I met and who mentioned a six-page letter that an enterprise agency had received from ministers at the time. They pointed out that it should have been one or two pages and that it should have set out key elements rather than a whole list of things. It is a fair point; after all, when resources are tight, they need to focus on doing fewer things well, to the best of their ability. Their key objectives are economic growth and support to local businesses—all I am saying is that other things might have to be less of a priority.

Jamie Halcro Johnston: I would hope that they would be doing things to the best of their ability anyway.

Shona Robison: I am talking about the number of things that they are doing.

Jamie Halcro Johnston: When you set the budget again next year, you will have reduced expectations of what the agencies are going to be able to deliver. This is not the first cut: the enterprise bodies have faced cuts for a number of years. How will we not get into what is essentially a spiral of enterprise bodies setting targets with reduced budgets, delivering less—even if, as you might argue, they deliver it better—and their budgets continuing to be cut, because you are expecting them to deliver less?

12:30

Shona Robison: The easy—and straightforward—answer is that we can avoid that if we do not see real-terms cuts to the Scottish budget of the type that we saw at the autumn statement. If we see a better fiscal position emerge from the spring budget, if the Treasury allows us to use that rather than the autumn statement as the basis of our forecast and if we see an enhanced fiscal position at the next autumn statement, we will be able to address all these points. With less money, however, we cannot give every part of the public sector and all our agencies the same amounts of money, because that money just does not exist. We can salami slice and say that there needs to be less money for health or for the police and fire services, but I suspect that, if I had done that, the committee's questions today would have centred on those public services.

The easy answer is that, the more money we have available to us and the bigger the cake, the more we can address the enterprise agencies and higher and further education institutions. When there is less money, we have to make these really difficult decisions.

Jamie Halcro Johnston: That point might have more standing, had there not been cuts when times were better, too.

When you were here in January, I asked you about Business Gateway. Will you clarify the support for that? I apologise if I missed this in the large number of papers that we received for this meeting, but can you advise whether Government support is going into Business Gateway? If so, how is that going? Why is it not identified in the budget?

Shona Robison: I am afraid that I do not have that level of detail with me, but I will absolutely come back to you with it at the earliest opportunity.

Jamie Halcro Johnston: All right. Thanks very much.

We all accept that economic growth is vital for jobs and our economy, but it is also vital for taxes. How do you respond to the comments that Sandy Begbie of Scottish Financial Enterprise made at the weekend when he said that the Scottish Government's tax policy is making Scotland a "dangerous place" in which to create wealth?

Shona Robison: I have a lot of respect for Sandy Begbie, and we should of course listen to all voices on this matter. We have tried through our tax decisions, not just in the budget that we are discussing but for a number of years now, to develop a tax system that is progressive and which is based on those with the broadest shoulders paying a bit more. The result is that we have £1.5 billion of additional revenues that we would not have had, had we followed the UK Government's tax position. If we did not have that £1.5 billion, we would have even less for the enterprise agencies and for universities and colleges. Our tax decisions have led to significant additional revenues for the Scottish budget.

These are choices that have to be made. I do not think that the proposition of lower taxes and higher spend has much merit—I do not understand how it would work. If taxes are reduced, you have less money to spend. Those choices are also facing the Chancellor of the Exchequer for the spring budget on 6 March, and I really hope that he prioritises investment in public services rather than tax cuts, because that would enable us to make the investments in our enterprise agencies and our universities and colleges.

Those are the two sides of the budget, and those are the issues that we have to grapple with at each budget.

Jamie Halcro Johnston: I get that. However, without getting into a discussion on the Laffer curve and such areas, I think that it must be worrying that a senior person in a vital sector of the Scottish economy is saying that your tax policy is making Scotland a "dangerous place" for people to base themselves.

Shona Robison: I respect Sandy Begbie, as I have said, but I do not agree with that description. Earlier in the meeting, I mentioned a number of economic indicators, and I also quoted the Fraser of Allander Institute, which does not always use the language that it has used in relation to the outlook for the Scottish economy. Despite the recession that we are seeing across the UK and despite the financial and economic challenges that exist, those economic indicators show improved productivity, improved tax take and wage growth. They all show that Scotland is still a very good place to invest and do business in, whether from the point of view of inward investment or of business investment decisions that are made here in Scotland. All that I can do is point to the economic indicators, which give a slightly different narrative from some of the other things that we have heard.

As I have said, I have a lot of respect for Sandy Begbie, but I do not agree with his description.

Jamie Halcro Johnston: I want to move on to the rural affairs budget and agriculture funding, and at this point, I remind members of my entry in the register of members' interests in relation to agriculture.

You do not mention this issue in your response, because although we mentioned it in our report, we did not make a recommendation on it. Cuts have been made to the rural affairs budget, and the £33 million of ring-fenced agriculture funding that was identified as part of the Bew review has not been allocated back to the budget. Do you know yet when it will be?

Shona Robison: Let me say a couple of things about that. First, I go back to the point that, with less money, we have less money and there is less money to go round. The decisions that we have taken have been very difficult. There is the ring-fenced funding of £61 million, on which I have given a commitment that it will be returned to the portfolio. The first instalment of £15 million will be returned in 2024-25. I will look at the remainder of the funds being returned in full at the right time, in negotiation with the sector, to help—

Jamie Halcro Johnston: I apologise for interrupting, but do you have a timescale for when that funding has to be returned by?

Shona Robison: No, but I want to do it in a way that supports the reform and transformation of Scotland's farming and food production industry. That is the purpose of that funding—that is what the sector wants it to be for. However, I want to do it in a way that brings it in at the right time for the sector. If we do not do it at the right time, there is a danger of its potentially not being spent. The preparation has to be done so that, when it comes to the reform and transformation process, we are clear about what is needed when.

Those discussions are on-going, but I can give an absolute commitment that all of the £61 million will be returned and that it will be done in a way that is absolutely in line with what the sector needs.

Jamie Halcro Johnston: If funding that you accept is ring fenced for agriculture can be taken out of agriculture and used in other areas, because—and this is the case that you have made—budgetary constraints are tight, without any commitment being given with regard to timescales or how that money will be returned, does that not make a mockery of the idea of its being ring fenced? Surely that means that we are simply talking about general funds.

Shona Robison: No, that is not the case, because that funding will come back and will be used for that purpose. The ring fencing remains—the issue is the profiling of the funding. There is no question about the funding. It will be returned; the issue is its profiling.

There is a danger of the funding not being spent if the sector is not prepared and ready to use it for the reform and transformation that it wants to use it for. The money must be returned in such a way that the profiling meets the sector's needs; in other words, it must come in to help the sector do X in the right year when it is ready to do that. I suspect that there will be an element of back loading, because a lot of preparatory work is still being done on reform and transformation.

That money has been ring fenced for that purpose. It will be returned. We are talking to the sector about when that will happen; £15 million has already been committed for 2024-25, and the remainder will be returned thereafter. The split and the profiling will be negotiated.

Jamie Halcro Johnston: On the general principle of ring fencing, if the Scottish Government can take ring-fenced money and use it across its budgets, why should local councils not take ring-fenced money from the Scottish Government and use it across their budgets? What is the principal difference there?

Shona Robison: I might bring in Alison Cumming here, but this is not about taking that money and spending it elsewhere in the budget—

the money has been constrained, so there is less money. The money is being profiled and deployed in a way that is required by the sector but which is also affordable. There is no point in £61 million sitting in a budget line that will not be spent or which will be underspent if it means that we have to reduce funding elsewhere to provide it in a particular area—

Jamie Halcro Johnston: But you have reduced funding in the rural affairs budget. You argue that we cannot find a use for that money in the rural affairs budget, but you have cut that budget.

On the point that I was really asking about, why should a local authority that receives ring-fenced funding from the Scottish Government for certain parts of its public service delivery not say, "If the Scottish Government can use ring-fenced funding for what it wants to do, why shouldn't we do the same, given the budget pressures that we are under?"?

Shona Robison: For the coming year, we have removed ring fencing from almost £1 billion of local government funding. In other words, there will be flexibility on nearly £1 billion that was previously ring fenced, which shows the direction of travel with local government. However, we want to do more. We have the Verity house agreement, which is a key element of an on-going journey.

The remaining areas of ring fencing are a bit trickier. We talked earlier about the need for us to move cautiously on teacher numbers, because we do not want those to go off a cliff. If that happened, questions would be asked about what the education secretary had done to avoid teacher numbers going off a cliff, when they are fundamentally important to reducing the poverty-related attainment gap.

We are on a journey to remove ring fencing and we have made good progress, but there are remaining areas on which we will have to move cautiously as we work with local government to achieve our joint aim, which is to further remove ring fencing.

Jamie Halcro Johnston: Do I have time for a very brief question, convener?

The Convener: If it is very brief. We are an hour over time already.

Jamie Halcro Johnston: My apologies.

The Convener: I have been too generous to members—that is the problem.

Jamie Halcro Johnston: My question follows up on Ross Greer's point about capital investment in the NHS. Plans for the new Belford hospital have been delayed and the same has happened in other areas. Obviously, delays to new buildings mean that NHS boards will have to consider how

they can get the most out of the facilities that they have, so there will be increased maintenance costs. Will their budgets cover increased maintenance costs to increase the longevity of facilities that would have been replaced with new buildings?

Shona Robison: As I have said, we await the spring budget. Of course, the best way of addressing your point about new NHS facilities is for the chancellor to reverse the capital cut and not have £1.6 billion—

Jamie Halcro Johnston: You have made that point, and I know that we are short of time, so can you just talk about the proposed NHS budget?

Shona Robison: It is an important point, and I will make it again: if there is less capital money, there is less money for NHS buildings, infrastructure or anything else. Reversing that cut is the solution.

In the meantime, we have said two things. First, we have said that the priority for the capital that the NHS has available needs to be essential maintenance. Secondly, we have said that, after 6 March, we will consider what the resources look like. We will look at the 6 March capital position, in relation to the UK Government and anything that we can do, depending on where we end up at the year end, to revisit that in the infrastructure investment plan.

Therefore, the current position is not the end of the story, but we could not have projects starting that might not be able to be taken forward. Using money to start projects that could not then be completed is not a good use of public money. We have therefore had to pause until we get that picture. In the meantime, we expect boards to take forward essential maintenance as a key priority.

Jamie Halcro Johnston: Okay—thank you.

The Convener: I thank colleagues. As I have said, I have been very generous with time today—and particularly with your time, Deputy First Minister—so we have been asking questions for an hour longer than was proposed.

Thank you, Deputy First Minister, for answering so many questions in such detail. Of course, I think that we were all probably guilty of wandering off the report at certain points.

We know that stage 3 of the budget is next Tuesday. Given some of the questions that have been asked and the comments that have been made, can you tell us whether any Opposition parties have come forward with alternative fully costed budget proposals?

Shona Robison: There have been none.

The Convener: Thank you.

Budget (Scotland) (No 3) Bill: Stage 2

12:45

The Convener: Our second agenda item is to consider the Budget (Scotland) (No 3) Bill at stage 2. There are no amendments but, under standing orders, we are obliged to consider each section and schedule of the bill and the long title and to agree to each formally.

We will take the sections in order, with schedules being taken immediately after the section that introduces them and the long title last. Fortunately, standing orders allow us to put a single question where groups of sections or schedules are to be considered consecutively and, unless members disagree, that is what I propose to do.

Section 1 agreed to.

Schedule 1 agreed to.

Section 2 agreed to.

Schedule 2 agreed to.

Section 3 agreed to.

Schedule 3 agreed to.

Sections 4 to 11 agreed to.

Long title agreed to.

The Convener: That ends stage 2 consideration of the bill. We will move into private session to consider our work programme. I thank you, Deputy First Minister, and your officials for your contributions.

12:46

Meeting continued in private until 12:52.

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