



OFFICIAL REPORT
AITHISG OIFIGEIL

Finance and Public Administration Committee

Tuesday 12 November 2024

Session 6



The Scottish Parliament
Pàrlamaid na h-Alba

© Parliamentary copyright. Scottish Parliamentary Corporate Body

Information on the Scottish Parliament's copyright policy can be found on the website - www.parliament.scot or by contacting Public Information on 0131 348 5000

Tuesday 12 November 2024

CONTENTS

	Col.
SUBORDINATE LEGISLATION	1
Budget (Scotland) Act 2024 Amendment Regulations 2024 [Draft]	1

FINANCE AND PUBLIC ADMINISTRATION COMMITTEE

31st 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)

*Craig Hoy (South Scotland) (Con)

*John Mason (Glasgow Shettleston) (Ind)

*Liz Smith (Mid Scotland and Fife) (Con)

*Michelle Thomson (Falkirk East) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Claire Hughes (Scottish Government)

Craig Maidment (Scottish Government)

Ivan McKee (Minister for Public Finance)

CLERK TO THE COMMITTEE

Joanne McNaughton

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament

Finance and Public Administration Committee

Tuesday 12 November 2024

[The Convener opened the meeting at 10:38]

Subordinate Legislation

Budget (Scotland) Act 2024 Amendment Regulations 2024 [Draft]

The Convener (Kenneth Gibson): Good morning and welcome to the 31st meeting of the Finance and Public Administration Committee in 2024.

The first item on our agenda is an evidence session with the Minister for Public Finance on the draft Budget (Scotland) Act 2024 Amendment Regulations 2024. I intend to allow around 75 minutes for the session.

The minister is joined by two Scottish Government officials: Craig Maidment, senior finance manager, and Claire Hughes, head of corporate reporting. I welcome them to the meeting.

I also welcome to our deliberations members of a delegation from the Tobago House of Assembly, who are in the public gallery. I got married on the island of Tobago, which has very fond memories for me.

I invite the minister to make a short opening statement.

The Minister for Public Finance (Ivan McKee): Good morning. I will open with some context about the position in which we find ourselves. Scotland has faced the most challenging financial situation since devolution, caused in large part by the economic damage of Brexit, a global pandemic, the war in Ukraine and, of course, the cost of living crisis. Persistent high inflation, public sector pay deals, the continued cost of living crisis and wider geopolitical events have meant that careful consideration has had to be given to balancing the Scottish budget.

In our fiscal statement to Parliament in September, the Cabinet Secretary for Finance and Local Government set out the savings that the Scottish Government has been required to make to ensure that we can achieve a balanced budget, and the autumn budget revision shows those choices being put into action.

It is important to note that the ABR predates the United Kingdom Government's autumn budget and that nothing from that budget is included in the ABR. However, I will be clear about the impact of the autumn budget on our financial position. We welcome the additional funding, but that funding is necessary to correct for persistent underinvestment in public services and to address the cost pressures that we face. The amounts provided by way of consequentials arising from the UK autumn budget are broadly consistent with what has been factored into our planning and we are therefore not in a position to reverse the savings that were previously announced.

The Scottish autumn budget revision provides the first opportunity to formally amend the Scottish budget for 2024-25 and to allocate almost £1.1 billion of additional funding to support our public services. It contains the usual four categories of changes. Net funding changes increase the budget by £1,126.6 million. Those changes include providing £1,058 million to health to support services and to fund pay rises and changes to employers' pension contributions, £155.9 million to local government and £35 million to fund police and fire service pensions.

In order to fund those priority areas, it has been necessary to reprioritise budgets in the way that the cabinet secretary previously outlined. The technical Whitehall and internal transfers are presented in the document in the usual way and the supporting document for the autumn budget revision and the finance update prepared by my officials provide further background on the net changes, as well as updates on information requested by the committee.

I am happy to answer any questions that the committee might have.

The Convener: In time-honoured fashion, I will open with some questions before colleagues around the table come in.

My first comment is that the Scottish Government has pointed out that the UK Government's autumn budget provided £1.433 billion in resource Barnett consequentials. I think committee members will be surprised that that amount is broadly in line with our internal planning assumptions and was already factored into our spending plans. Committee members were not party to any internal planning assumptions. How did the Scottish Government come to the conclusion that that was the amount of money that the UK Government was likely to allocate in Barnett consequentials?

Ivan McKee: It is an unknown, but we work within a range and make estimates based on what we expect will happen. The biggest part relates to pay uplifts. The UK pay review bodies came

forward with their recommendations, which the UK Government adopted. In Scotland, we made settlements that were broadly in line with those numbers and the way in which we managed that avoided having damaging strikes in the Scottish health service. We had an estimate of the funding that would be required to support those public sector pay deals.

Another large part of those consequential is for health spending and we made a commitment to pass health consequential on to our health service because of the pressures on it for various reasons including health inflation, the cost of medicines and energy, and other financial challenges. We expected that there would be health consequential of that order.

When you add those things together, that is how we arrived at—

The Convener: What parameters did you think were likely to come from the budget? I do not suppose that any minister thought that the figure would be specifically £1,433 million. Were you thinking of a figure between £1 billion and £2 billion, or between £500,000 and £2 billion?

Ivan McKee: I think that £1.4 billion was probably at the upper end of what we expected, but there was no guarantee that the number would not have been far less than that.

The Convener: The volume of transfers in the autumn revision is about 2 per cent of the overall budget, which is now more than £60 billion a year. There are very significant changes in some portfolios within that budget; the one that I think is most significant is the transfer of some health and social care to local government. For example, we have seen investment of £257.2 million to support the integration of health and social care and the transfer of £230 million from health and social care to local government for staff providing direct adult social care. There are half a dozen more examples, amounting to some £909 million.

10:45

It seems that, every year in the autumn revision, we have a situation in which parts of the health and social care budget are transferred out. For example, we have £57.8 million going from health and social care to education and skills to pay for teaching grants for nursery and midwifery students. There seems to be a difference between where the policy is and where the delivery is. Every year, we ask whether there are any proposals to change that. Given that there is a transfer from health and social care to education every single year, surely it would be more sensible for that money to appear in the education portfolio at the start of the financial year.

Ivan McKee: I suppose that you would not necessarily know how much that transfer was going to be, which would come down to policy decisions. You are right that, on the surface, it looks unnecessarily complex, but the way it works is that the policy area makes the decisions on how much the spend will be—it is responsible for doing that.

You cited the example of education and training. The decision on how to take that forward would have been made in the health and social care portfolio, which has responsibility for that budget line. It is education that would deliver those services, so the funding would be transferred to education to enable it to fund that delivery. If you look through the budget, that is typically the reason for such a scenario. However, we are very transparent about what those transfers are as part of this process.

The Convener: I do not pretend to be Mystic Meg—I hope that no one will ask me for next week's winning lottery numbers—but I predict that the same switch will happen next year and possibly the year after. I urge the Scottish Government to look again at where it positions those resources at the start of the financial year, because it seems daft to have to go through that process every year.

I understand what you are saying—you would not know the specific amounts—but if there was £1 million or £2 million going the other way, that would look better than transferring a huge chunk of money every year.

Ivan McKee: There would still be revisions and transfers, but they would involve smaller numbers, as you rightly point out. We will certainly give that due consideration.

Claire Hughes (Scottish Government): We are looking to baseline as much as we can. This year, we baselined £1 billion more in transfers.

The committee has also questioned the comparator information that is being used. For the 2025-26 budget, we are working hard to adjust that information, which will show the budget after transfers have taken place. Hopefully, that will help with transparency in the budget process.

The Convener: Slightly less than 5 per cent of the health and social care budget is transferring out, but it is only 0.5 per cent for the rest of the budget. It looks out of kilter that such a huge chunk of money is being transferred from health and social care. It looks as if those are political decisions rather than delivery decisions. It seems that the revisions are being skewed each year.

Ivan McKee: Point taken. As I said, we have a policy of minimising those transfers. As Claire Hughes indicated, another £1 billion of transfers

was baselined to take it out of the process this year. We will continue to look at opportunities to do that.

The Convener: Where are we with capital? We have seen, for example, £89 million from resource being put into capital, and we have seen that money being taken back out. Will you talk us through that a wee bit?

Ivan McKee: In the autumn budget revision, there was an increase in capital funding of just short of £60 million. As you rightly say, we saw a level of underspend carried forward in the reserve, which allowed us to reverse out a resource-to-capital switch that had occurred previously. That switch was done to enable us to have the capital funding that we required, but because of how the capital budget worked out, the underspend on certain areas allowed us to reverse that, which I think was the right thing to do. You have to remember that the capital budget is about £6 billion, so when we talk about 1, 2 or 3 per cent, it adds up to significant numbers.

The Convener: I appreciate that, but the committee is a wee bit blind on that. At the time of the previous budget, we were promised a pipeline of capital projects in March of this year. That is now being put back to next year. We cannot really see where the Scottish Government is going and how it is managing to deliver on its objectives around capital, because we are not really able to see what those delivery objectives are. Are you able to enlighten us at all on any aspect of that?

Ivan McKee: The broader context is that there was a significant capital spending reduction for this year. Although it looks as though that will be largely reversed as we go into next year, that is the context that we are working in, which, as we know, has put pressure on capital spending.

We do not seem to have any more information on the timing of specific projects. If you have information on that timeline, that is obviously what is happening; I will come back to you if there are any more specifics on the timing of the update.

The Convener: We know that there was a capital underspend of £130.4 million in the previous financial year, which has been carried over, so the spending power has not been lost. Where are we with regard to being on target for delivery of the full capital programme? Being unable to see how some projects are doing compared with others is frustrating.

Ivan McKee: I understand that. As I said, that underspend is about 2 per cent of the total budget. You would run those big capital projects with various issues, be it inflation or timeline slippage. Many factors are involved in large capital projects that can make that margin of difference at the edges, and that is what we are seeing here.

The Convener: I know that colleagues around the table have a lot of questions to ask—all six members have expressed an interest in asking questions.

Michelle Thomson (Falkirk East) (SNP): Good morning, minister. Thank you for attending the meeting this morning.

I want to ask about ScotWind. In her original statement, the Cabinet Secretary for Finance and Local Government said that the intention was to draw down £460 million from ScotWind. That came under some criticism by many people, not least of all me. However, as the convener has already pointed out, luckily, it now looks as though matters have changed, due to your excellent internal planning assumption. More important, we will not have a final update until the spring budget revision. What assessment have you made of the behavioural impacts on investment as a result of continued uncertainty about whether the ScotWind money will be used for revenue spending or to genuinely support future growth?

Ivan McKee: Do you mean in relation to private sector investment?

Michelle Thomson: Yes. Obviously, what the public sector does can be used to crowd in private sector investment, but we keep having different statements. As has already been pointed out, perhaps you got lucky with your excellent internal planning, but we will not have a final understanding until the spring budget revision. People from the outside are looking in and hearing Scottish Government statements of intent about the money. What assessment have you made of how that will affect your ability to crowd in private sector investment?

Ivan McKee: You are absolutely right that we want to have more certainty, but the uncertainty around the fiscal settlement from the UK Government has made that problematic. I will take a step back and look at what we want to do with the ScotWind money. The Cabinet Secretary for Finance and Local Government will say more on this, but the intention is to use that funding, wherever possible, to support net zero capital projects, because that is where we see our getting value for that money.

You are right to say that, depending on how we do that, there is scope to leverage in additional private sector investment, which remains our objective. However, because of the uncertainty around consequentials and the pressures on pay, inflation, health spending and the other areas that we have identified, we have had to use that money over the earlier part of this year, to some extent, to help to balance the budget, which, as you know, we need to do.

As we move through the rest of this year and the budget picture becomes clearer—for example, we are not yet sure about the position with national insurance contributions for employers, including those in the public sector, and there are other such examples—our intention is for the ScotWind money to be substantially available for capital investment.

Michelle Thomson: I accept what you have said about the remaining uncertainties and your intention. When do you anticipate that you or the finance secretary will be able to be unequivocal about that money reverting to its original intention, which related to net zero funding and growing the wider supply chain in that regard? That included a variety of things.

Ivan McKee: The cabinet secretary will make more statements on that as we go through the budget process. The spring budget review in February will provide more clarification on how this financial year is looking. However, I think that you can expect more clarification shortly on our intention and plans to be in a position to use the ScotWind money for those purposes.

Michelle Thomson: I will move on. To what extent do in-year transfers reflect the Scottish Government's priorities?

Ivan McKee: Clearly, in-year transfers reflect the Government's priorities, but there will be situations when we will need to address specific issues that arise. In the scope of the overall spending envelope, many in-year transfers involve relatively small percentages and are required to address specific issues that arise in specific circumstances. However, you are right that, as with any budget, in-year transfers reflect the Government's priorities.

Michelle Thomson: That was my working assumption, so I was surprised to see the transfer from net zero and energy to enterprise, trade and investment. It is good that that money is going to offshore energy, because that adds investment, but, given that both growing the economy and tackling the climate emergency are Scottish Government priorities, what was the thinking behind swapping the money from one priority area to another? There were net funding changes of £19.6 million from net zero and energy to enterprise.

Ivan McKee: Those will relate to specific situations that happen within a budget. For example, there might be an underspend in one budget, or there might be scope to move funding because of the way that the spending envelope had developed, with a requirement for the funding in another budget. With regard to the economy portfolio, that spending would have been on

Ferguson's. I will see whether we can pull up the details on net zero.

Claire Hughes: Craig Maidment, are you able to do that?

Ivan McKee: We will then be able to dig into the details.

Craig Maidment (Scottish Government): What specific line is that?

Michelle Thomson: There were net funding changes of £19.6 million. That money was moved from net zero and energy.

Craig Maidment: That is largely reflective of what was in the fiscal statement savings packages, a lot of which is income from Scottish Water loans. I think that, of the £19.6 million, £16 million relates to income. I hope that the "Scottish Government Guide to the Autumn Budget Revision" outlines the other elements, but that is the single largest element, so the position is as outlined in the cabinet secretary's fiscal statement in September. Most of the money is additional income, so it just looks like it is a funding reduction when, in fact, it is enhanced income within the portfolio.

Michelle Thomson: Okay. There is a lot of data in the documents, so are there any other areas in which there has been a deduction in the net zero budget that has gone to the enterprise one—in other words, is there anything else that fits this anomaly of deducting money from the climate emergency to put into growing the economy?

Ivan McKee: Do you want to point to any specific areas?

Michelle Thomson: I am looking at the general principle, because the information that we have is quite opaque, because we have moneys coming into certain areas. I am looking at the general principle, as that appears to be what has happened.

Ivan McKee: In the notes that were provided with the review, there is—I hope—some clarification on what those moneys are. For example, paragraph 21 states:

"Within the Net Zero and Energy portfolio £19.6 million of savings outlined in the fiscal statement have been included, the largest of which is the £16 million of additional income in respect of Scottish Water Interest on Voted Loan. The additional £3.6 million relates to reduced forecast on the Zero Waste programme, £1 million of savings from Nature Restoration and £0.1 million relating to Air Quality."

That provides more granular detail on what is happening with those portfolio adjustments.

Claire Hughes: Exactly, and all the transfers should still deliver the same policy aim. For example, there is a transfer to the Scottish National Investment Bank and the enterprise

agencies to deliver offshore wind investment programmes. Therefore, it is still delivering on that policy, albeit that it is delivered by a bank. The outcome is still the same.

11:00

Michelle Thomson: The Cabinet Secretary for Finance and Local Government noted in her statement on 3 September that impact assessments would be carried out. However, they were not published until 3 October. Impact assessments, including equality impact assessments, should be done before that, so what was the rationale for the delay and for the assessments not being published until a month later?

Ivan McKee: Clearly, there is a timing issue in addressing the fiscal challenges that we face. The cabinet secretary felt that it was important that there was transparency on the adjustments, that people were aware of the financial position and that that was communicated as quickly as possible. You are right that impact assessments need to be done as part of the process, and they were carried out in the required timeframe, so that the information could be published. It was important for transparency that the fiscal position and the required changes were communicated as early as possible.

Michelle Thomson: I still do not understand why the assessments were not done at the time.

Claire Hughes: They were done; they were just not published. We could perhaps provide something in writing.

Michelle Thomson: If they were done, why were they not published?

Claire Hughes: I think that we will provide something in writing on the process for that.

Ivan McKee: Yes—we will do that.

Michelle Thomson: I have looked at the impact assessments, and a third of them state that there will be no impact. Women are mentioned just twice—I fully accept what you said about the UK budget revision—but we know that cuts generally affect women disproportionately. I am just commenting that I was somewhat surprised, because it looked to me that the assessments had been done not only late but quite quickly. Any further information on that would be helpful.

I want to pick up on a comment that the convener made regarding the process that I referred to, when we were chatting earlier, as “internal shoogling”—moving money from budget pot to budget pot. I entirely understand the need for some of that, because new information will be coming in. Given the extent to which that

happens—fairly regularly now—how does that fit with the drive for fiscal sustainability? The amount and the extent of that clearly indicates that a lot needs to be done. I understand some of the reasons for it, and what the drivers are, but it does not exactly scream of fiscal sustainability, considering the extent of the process.

Ivan McKee: I would not make that connection. We can think through the logic of why those transfers happen. As we have explained, it is about policy decisions being made in one portfolio, with a different portfolio doing the delivery. If the funding is put into the delivery portfolio, where the policy decisions have not been made, it probably makes it harder to have control, because the portfolio making the policy decisions is working in a vacuum, to an extent, as the funding is, at that point, somebody else’s money, which the other portfolio is, in effect, spending. If the budget owner—the portfolio that has the budget—is making the decision on what it should be spent on and is considering how it balances its budget and gets maximum effect from that, that is the way to have better control and, therefore, better sustainability. The transfer is simply to execute the delivery of the policy decision, once the extent of the spending has been determined.

Michelle Thomson: We are all grateful for the changes that have been made thus far, at the behest of the committee, to provide greater transparency. Regarding your role and the good work that, I understand, you are doing to seek to make savings from a public administration point of view, have you had any thoughts about how that can be transparently demonstrated? I know that that does not relate to our discussion today, but it would relate to future budgets.

Ivan McKee: That is a good question. This week and next, we are publishing more data on the exercise that we conducted over the summer on what public bodies and, indeed, the Scottish Government have spent on corporate functions in the broadest sense, internally and in relation to acquired services. This is the first time that the exercise has been done. The data, by necessity, is a couple of years out of date, because it is culled from annual published reports from more than 100 public bodies, but it is allowing us to accelerate our work in looking for savings in specific aspects of public spending, be that on estates, digital, shared services, procurement frameworks and a range of other areas in which we believe that, by having visibility on a more granular level, we can drive more efficient ways of spending money.

As I said, that programme is under way. That data will provide us with more levers and tools to accelerate that work. You are right that there is then a question about how that work translates into how this budget process looks. At a macro

level, reductions in those areas would be reflected in the budget lines. You would see the same budget line delivering more or you would be getting the same from a smaller budget line, because you would be working more efficiently. That, of course, is the intention.

However, you are right that we need to develop a mechanism to provide more visibility on the progress in that area. Part of the issue is that the data is historical—it is a couple of years old. We are conscious of and are spending a bit of time thinking about making the link between that and what we are delivering in real time in relation to what that looks like in the updates.

Michael Marra (North East Scotland) (Lab): In January 2022, the then First Minister—two First Ministers back—said that the ScotWind moneys

“will help deliver the supply chain investments and high quality jobs that will make the climate transition a fair one.”

That money should be invested in the north-east of Scotland. Three years on, why is that money not yet being spent on such projects?

Ivan McKee: You have to recognise that a significant amount of money is being spent on the net zero transition. However, you are right that, as the cabinet secretary and I have made clear, those ScotWind moneys have had to be used in the short term. In the absence of clarity on the consequential from the UK autumn budget, it was necessary to use that to deal with inflation pressures on the health service and the pay awards that public service workers rightly deserved. Without using that money, it would not have been possible to deal with that at that time. Now that there is more clarity on the UK funding position, we are able to work towards reversing that use of ScotWind.

Michael Marra: You are explicit in the submission to the committee today that the Scottish Government is using that money as a second reserve to meet in-year spending pressures. Where would we be if we did not have it?

Ivan McKee: If we did not have the ScotWind money?

Michael Marra: Yes.

Ivan McKee: Clearly, the pressure would be increased; that goes without saying. There are potentially other levers, but some of the decisions that we have had to make would have been harder. On the spend side, there would have been more pressure on the limited borrowing powers that we have, and we would have had to use those more extensively. There would have been things that, frankly, we might not have been able to do. However, as I said, it is important to recognise the context in which those decisions were taken,

which was a lack of information as to the extent of the consequential from the UK Government, although there was an understanding that there would be consequential to some extent.

Michael Marra: Should not the committee be concerned about the conduct of the Scottish Government in relation to public finances, given that you have relied on a lucky windfall in the bank in order to deal with financial pressures?

Ivan McKee: ScotWind is in place, and we have known about the extent of that—you are quoting something from nearly three years ago—for a while. It is not something that has just arrived, and we have grabbed and used it. Plans were made in the understanding that there were pressures that had to be dealt with and there were—

Michael Marra: It did just arrive. In terms of the overall—

Ivan McKee: There has been visibility on it for quite a period.

Michael Marra: —long-term public spending plans and commitment, we have known for years now that the public finances in Scotland are not sustainable, but you are ending up having to lean on a one-off pot of money—again and again—to try to get yourself through a budget year.

Ivan McKee: We cannot lean on it again and again.

Michael Marra: Should not the public be concerned about that in respect of your handling of the public finances?

Ivan McKee: You can only use it once, right? You cannot lean on it again and again—

Michael Marra: To be fair, minister, you have done.

Ivan McKee: We have used some of it in-year—

Michael Marra: You have taken it out and put it back in.

Ivan McKee: Exactly, that is absolutely right. That is the point; we want to be able to reverse that expenditure—our intentions remain in place. However, pressures had to be dealt with. Which spends should we not have followed through? Should we not have increased health spend or followed through on those pay deals? What should we not have done? Those are important questions.

As I have said, there was a lack of clarity on the scope and scale of the consequential that were coming from the UK Government, and it was necessary to use that money over that short period of time to be able to manage through that process, given our lack of borrowing powers. The UK Government and other Governments do not

have that problem, because their borrowing powers do not have those tight constraints on them. A normal, independent country—dare I say it—that had the fiscal freedom to deal with that situation would have used borrowing powers to get itself over that hump, if you want to call it that. The fact that we do not have those powers means that ScotWind money has been used as a short-term buffer.

The strategic intention as to how to use that money is absolutely clear, and we are working to get back to that position.

Michael Marra: You said in answer to the convener that you received more clarity on 29 July from the Chancellor of the Exchequer, who, after winning the election, said that the UK Labour Government was going to meet the public sector pay deals. Your assumption from that was that you would receive £1.4 billion of funding—I think that that was the answer that you gave to the convener.

Ivan McKee: You have to unpick the timeline on that. The UK-wide pay review bodies would have been making their deliberations in exactly that time frame; the UK Government would have been aware of that and would have engaged with them. We are not part of that process. We have to wait until they publish and the UK Government makes its decisions.

Following the election in July, the UK Government indicated that it would be making those pay awards in full. However, you must remember that there was huge uncertainty at that point about how those awards would be funded. There was much talk about the UK Government reducing departmental spend budgets in order to fund the public sector pay deals, which would have meant that we would have been in a difficult situation. It was only when the UK autumn budget took place that there was more clarity on the consequentials that were coming through.

Michael Marra: Ms Hughes, were you looking to come in?

Claire Hughes: Yes.

We cannot overspend or underspend our budget. We basically must come in within about 1 per cent of our total budget, and we have limited levers. Throughout the year, there are a lot of risks and opportunities and a lot of volatility in our budget—around social security spend, devolved tax, and so on—and there is uncertainty around the consequentials. ScotWind is the one lever on which we can draw down and that we do not need to carry outwith the reserves. There is an element of risk as a result of that.

Michael Marra: In your submission, minister, you said:

“These amounts”—

the £1.433 billion—

“are broadly in line with our internal planning assumption and is factored into spending plans.”

When did you make that assumption?

Ivan McKee: That is an on-going process. Clearly, variables happen, one of which is the pay review—

Michael Marra: I am trying to pin you down a little on that. If it was not on 29 July, when the announcement was made by the chancellor around the spending—

Ivan McKee: It is an on-going and evolving process. All of that works within a range.

Michael Marra: Did you make the assumption before or after the Cabinet Secretary for Finance and Local Government’s September statement about cuts?

Ivan McKee: It is an on-going process. We always work to planning assumptions and contingencies within a range. A meeting with finance officials happens literally every week, in which an assessment is made on where we are in that range and on what we think will or might happen, and we make decisions in that context. There is not a point where we sit down and say, “This is the number.” It is an evolving scenario—

Michael Marra: On that date in September when the cabinet secretary decided to make £1 billion of adjustments in the spending, at what number was your assumption?

Ivan McKee: As I said, we would be operating within a range.

Michael Marra: Could you give us the range?

Ivan McKee: Not off the top of my head, no.

Michael Marra: Will you provide it in writing to the committee?

Ivan McKee: The decisions that were taken at that point were necessary to balance the position, as we saw it, regarding the pressures that were on the budget.

Michael Marra: It is the statement that you were factoring in the £1.433 billion of spending in your assumption that I think is puzzling the committee—

Ivan McKee: It should not puzzle the committee because, as I said, on a weekly basis, we assess the pressures on the budget and the expected income from consequentials. Within that process, we make an assessment of where we are, we look at the gaps, and we take a view. At that point, we rightly took the view that the pressures were such that, rather than waiting any longer, it was

necessary to make adjustments to the budget and make hard decisions on some spending.

11:15

Michael Marra: At that point, you thought that those adjustments were necessary. I am trying to get a sense of the scale of that gap. If you take the £1.433 billion and the £1 billion, there is a gap of almost £2.5 billion in your budget. At that point, was that the gap that you were trying to fill?

Ivan McKee: No. Much of the £1 billion will have been movement within the lines that we talked about. That would be in relation to consequentialia that had come through for health previously. If you are talking about the £1 billion within the ABR, those previous consequentialia were allocated and known about. The extent of the savings in the statement that the cabinet secretary made in September was £600 million, a quantity of which was to do with the winter fuel payment, and a quantity of which—£188 million—was to do with specific savings on budget lines. Other savings were to do with the work that we are doing on generating savings through efficiency work. There was a range of things in that space.

Michael Marra: Can you provide to the committee, in written evidence, some basis for the range of assumptions that you were operating under at the point at which you made the cuts in September?

According to the autumn budget revision documents, £116.5 million of the cuts from September have been realised. Is that correct?

Ivan McKee: I do not have it to hand, but we will pull that number up.

Michael Marra: That is the figure that I have.

Are you expecting to realise the rest of the cuts in year? Are you going to persist with the rest of the cuts that were projected in September?

Ivan McKee: We still have some uncertainty on numbers from the UK Government. The biggest one that I talked about was NIC for the public sector. Other variables are still being worked through. At the moment, we are following through with the adjustments that the cabinet secretary announced in September.

Michael Marra: You are continuing to do that. How many of those cuts are recurring or one-off savings?

Ivan McKee: I would need to work through the details of that.

Michael Marra: Can you provide that in writing as well?

Ivan McKee: Yes, we can.

Claire Hughes: We can provide that in writing.

Michael Marra: That would be useful. It is about providing a baseline for us to understand what exists for the next round of budget.

My final area of questioning is on public sector pay. When—and on what basis—did the Government assume that public sector pay increases for this financial year would be 3 per cent?

Ivan McKee: That would have been factored into the budget assumptions.

Claire Hughes: That is right. The budget assumptions were based on the public sector pay policy that was published, so that was the baseline.

Michael Marra: However, the policy was not published at the time—it was published subsequently and very late. We found out only in the past few weeks that that was the basis on which the budget was set, because the Government refused to confirm that previously. On what basis was the figure of 3 per cent arrived at? I know that it was the policy, but on what basis was the policy arrived at?

Claire Hughes: Our pay team recommends a pay rise after doing research, having discussions with bodies, and looking at trends, data and what inflation is doing. We did not realise that the UK pay review bodies were going to come out with a slightly different set of recommendations.

Michael Marra: That cannot have been the first point of worry. The Scottish Fiscal Commission said that it would be 4.5 per cent, because it had not seen—

Ivan McKee: Sure, but that—

Michael Marra: If I can continue, minister. You had not provided the public pay policy to the commission. Doing so is in the written agreement between the Government and the SFC, but the Government had, again, refused to provide it. The SFC had to come up with its own figure, and that must have caused some concern in Government circles, when you saw that margin.

Ivan McKee: There is a range of factors that impact on those financial pressures. All of that needs to be considered, and that is the evolving process. As we work through this, more information becomes available, either on the cost-pressure side, or on there being more revenue or consequentialia, or on slippage in programmes. A whole range of things that are happening across a very complicated fiscal landscape are being assessed on a regular basis to understand where we are.

As I said, at the time when that budgeted number for pay was included, it was our best

estimate of where that would land. Clearly, things evolved over a period of time, and adjustments had to be made as a consequence.

Michael Marra: However, at that point, there were no pay deals being done at 3 per cent. The Office for Budget Responsibility was saying that public sector pay was running at a higher level than that. The Scottish Fiscal Commission arrived at the significantly higher figure of 4.5 per cent. At that moment—when the Scottish Fiscal Commission said that—the Government must have realised that the budget was burst, did it not?

Ivan McKee: That is absolutely not correct. Clearly, there are pressures that would build or become clearer over time, and that is the normal process. As I said at the start, because we do not have full borrowing powers, we are having to use our assumptions in order to manage within a very tight envelope.

The counterfactual is that we had assumed that public sector pay was going to be much higher. That would have meant that there would have had to be significant cuts earlier on. *[Interruption.]* Let me just follow through on this, because it is really important. There would have had to be significant cuts in the budget much earlier in that process. We would then have found ourselves, later in the day when the consequences had come through, in a position of being unable to spend that money in-year because of how late it was coming through. We would have had a cut in public services as a consequence of that, which was not necessary in the scenario that you are painting. I do not think that that would have been the right thing to do.

Michael Marra: You did—you made a £1 billion cut in public services in the middle of the year—

Ivan McKee: No. What we are talking about is that, if we had factored those pay increases into our assumptions earlier on, when we had to lay a budget that balanced at that point in time, there would have been significant cuts in public services much earlier in the process.

Michael Marra: Minister, the Government was wrong, and it has clearly been wrong. The Government has awarded pay deals well in excess of 4.5 per cent.

Ivan McKee: Are you saying that we should not have awarded those pay deals?

Michael Marra: No, absolutely not.

Ivan McKee: Exactly. Are you saying that we should have cut public services to that extent previously?

Michael Marra: Minister, your planning assumption, on the basis of the budget, was an erroneously low figure. I would ask officials what level of scrutiny was given to that figure.

Ivan McKee: What was the alternative?

Michael Marra: The alternative would have been to set a balanced budget.

Ivan McKee: That is exactly my point.

Ivan McKee: What you have done mid-year is create another £1 billion of spending cuts. You recognise—

Ivan McKee: It is not £1 billion.

Michael Marra: That is what was set out by the Cabinet Secretary for Finance and Local Government in September.

Ivan McKee: It was £600 million on that list, was it not?

Michael Marra: And the ScotWind money on top of it. How much is that?

Ivan McKee: I think that £200 million came out of that. The point is—

Michael Marra: We know that now.

Ivan McKee: That has been managed.

Michael Marra: Minister, this is about the planning of the public finances.

Ivan McKee: On top of that, we would have had to budget numbers earlier on to balance that budget, which was what we needed to do. That would have necessitated making more significant cuts in public services at the start of the year, in order to plan for what only became apparent through the year—which we did not know at the time would become apparent—which was the level of the public sector pay deals.

The reality is that we have not had to cut to the extent that we would have had to do in order to fund those; the cuts would have been much more significant in that sense. We have managed to fulfil those public sector pay deals, and we have done it without strikes in the health service, which has been the consequence of what happened down south.

Michael Marra: It is a picture of a chaotic and incompetent approach.

Ivan McKee: No, it is a picture—

Michael Marra: At the outset, you set the wrong number and you immediately overstretched on it: mid-year, you announced £1 billion of cuts. You tell us that you have an assumption that you are getting £1.4 billion but you cannot tell us when that assumption was made and on what evidence it was made. It just feels like it has all been made up as you go along.

Ivan McKee: You are not following through the logic of what actually happened. The problem is that we are in a scenario where we need to

manage with very limited borrowing powers, and we need to balance the budget. That means that we need to make assumptions, as we work through the process, about things that change on a regular basis. Fiscal pressure on public spend can be driven by pay deals or inflation or other macroeconomic factors. Our budgeting depends on the consequentialists that are received from the UK Government and on seeing what happens with other revenue streams and other expenses.

The process is that we manage those assumptions on a weekly basis in order to understand where the position is, within a range. We need to make decisions as we go through that, because, unlike the UK Government, we are not able to borrow money to cover those expenditures.

It is important that we protect public services, which we have done; it is important that we meet the public sector pay deal, which we have done; and it is important that we do that while balancing the budget and not overspending on our budget, which we are on course to do. On all the things that matter, we have come through it in that position.

Ross Greer (West Scotland) (Green): I will stick with that theme for a minute. Is there an argument to do this the other way around? Could you set a budget that balances, recognising all the pressures in the first place? I totally take your point that that would involve saying at the outset, “Here is what we will have to cut to make that balance”, but as part of the budget, you could publish what are essentially scenario plans, which specify, if the Government receives X amount of in-year consequentialists, where the cuts will be reversed and to which areas additional spending will be allocated. You could lay out the whole range of assumptions that you are making—you said that £1.4 billion was towards the upper end of the range.

There is a value-for-money point here, in that starting a process and then making cuts in-year does not only result in some people losing their jobs in-year, which is bad enough, but it represents low value for money. Projects are incomplete and you have to reinvent the wheel and restart again six months later when the projects get money reallocated in the next financial year, in the hope that they will get it for that whole year and not just for six months, with a cut to follow. Would it not be easier to start off with a balanced budget and scenario plans that show, if you get that money in June, September or October, where it will go and how you will ensure that it provides value for money, even though it is only coming into the system in-year?

Ivan McKee: It is all a balance. It is about understanding what the various pressures are and working our way through it, so it is not an either/or

situation. In the scenario that you paint, you would have to make cuts up front, which would damage public services at that point. You could make assumptions, such as on public sector pay, and then you could look back after a period of time and realise that your assumption on how much to cut was larger than what occurred in reality. I would then be sitting here and you would rightly ask why I cut hundreds of millions of pounds from the budget at the start, which caused public services to suffer. It is not just a question of turning that tap on again when the money flows through and it becomes clear—I note that we are sitting here in November and still do not have full clarity on what the consequentialists are. Pushing that money out the door in the last few weeks of a financial year is the most inefficient way to spend public money.

It is really important that, as part of this process, you understand what the ranges are, because it is not an exact science—there are many variables. We talk about £600 million, of which only £188 million was cuts to specific services in the budget lines that we outlined. That is 0.3 per cent of the total budget. We are trying to land this on a sixpence—very small percentage variations can make a big difference, running into many hundreds of millions of pounds.

That is the process, and I think that it is the right process. Do we always get it absolutely right? Of course not, because there are things that we do not know and are outside our control. Should we have erred more on one side than the other? You can always say that with hindsight, but if we had erred the other way, you would rightly have been criticising us for doing that.

Ross Greer: I sympathise with the Government on public sector pay, because the moment that any figure is published, that figure becomes the floor for negotiations from the union negotiator side. There is no winning when it comes to transparently setting out public sector pay in a way that does not undermine negotiations or make them more difficult.

Michael Marra mentioned some of the specific cuts that have been made, such as to the nature restoration fund, which you referred to in your response to Michelle Thomson. Is it still the Government’s position that there is no way to press ahead with some of those very small pots, such as the £1 million for the nature restoration fund—although a larger figure of £5 million has been mentioned—and the £2 million for the asylum seeker bus travel scheme had it proceeded?

If we take asylum seeker bus travel as the clearest example, the Parliament has now voted that that should still go ahead. Your group and the Government were part of that vote. We are heading towards the end of the financial year, so it

would not even be possible to spend £2 million at this point, but allocating something—£1 million or £0.5 million—would allow the project to get under way, with the intention of funding it fully and delivering it from the subsequent financial year. Is there really no scope to allocate back in the region of £1 million or £0.5 million?

Ivan McKee: As I have indicated in my comments this morning, clarity is still being sought on some of the impacts of the UK autumn budget, particularly around national insurance contributions for the public sector. There are other variables that are still being worked through with HM Treasury. When there is more clarity, the cabinet secretary will review the extent of the consequential and will indicate what the decisions are on how we take that forward.

11:30

Ross Greer: Finally, I want to return to public sector pay. One of the more substantial lines in the revision is for the teacher pay settlement. That creates a wider issue. I recognise the difficulties in allocating ahead for pay negotiations that have not been completed—I mentioned that a moment ago—but to what extent does the Government look at the year-on-year cumulative impact of the path-to-balance exercises? I have previously posed that question to the cabinet secretary and to the permanent secretary. I apologise if I have also posed it to you and all the conversations are just blurring together in my mind, but I would be interested in your perspective on that.

The issue applies particularly to the health and education portfolios, although, because health is so vast, it is a bit easier for it to absorb the changes. My concern is about the education portfolio, which, over the past three years of budget revisions, has taken a disproportionate share of the burden. You could argue that the current change is ultimately to transfer money to local government to pay teachers, but plenty of money beyond the teacher pay settlement has come out of the learning budget, for example. When the Government is making such decisions each year, does it look back at the trend over previous years and at whether certain budgets are beginning to bear a disproportionate burden?

Ivan McKee: The budget process and consideration of how much is allocated to portfolios is on-going. That is part of the discussions that the cabinet secretary and I are having with portfolio cabinet secretaries on what the budget should look like for next year. Ultimately, decisions will be made at Cabinet and then by the Parliament in due course as to what the allocations between portfolios look like. There is a well-established process for that.

We absolutely have an eye on what happens next year as we go through this year's process. I explained the work that is done to manage the ranges and variables in bringing this year's budget to balance, which obviously has implications, positive or negative, for spend in future years' budgets, and that is absolutely considered as part of the process.

Ross Greer: To clarify, there is a recognition from the Government that the education portfolio has borne quite a lot of the transfers over the past few years, just because it has had more discretionary spend than areas such as justice, where the budget is pretty fixed from the start of the year. There is a recognition that education has had to do quite a lot of the heavy lifting here.

Ivan McKee: I did not say that.

Ross Greer: I will rephrase it then. Is there a recognition that the education portfolio has had to bear quite a lot of the revisions, year on year?

Ivan McKee: I think that all portfolios could rightly make the case that they could spend more money very usefully but, of course, we live in constrained fiscal times and there is a budget process that is on-going.

Ross Greer: With respect, that is not an answer to the question that I asked. It is clear that, year on year, the education portfolio has borne quite a bit of the burden, in cash terms and as a percentage of its overall budget. Does the Government recognise that, when certain portfolios bear the burden year after year, that eventually has a disproportionate effect?

Ivan McKee: As I say, the budget process is taking place and decisions will be made on portfolio spending allocations. You could go through probably every portfolio and make a case as to why they deserve more funding. In that regard, education is no exception.

Ross Greer: I will have a final crack at it. I recognise the Government's ambition for the next in-year budget revision to be far smaller than it has been in the past couple of years but, when we get there, will you start by looking back at the effect that the previous rounds of in-year revisions and their baselining into future years has had on portfolios, before then looking at which portfolios to take from to achieve balance?

Ivan McKee: Yes. An extensive process happens as part of the budget-setting process, which involves looking at data, including historical data, and understanding what is baselined and what is not, what is transferred and what scenarios are in play in order to reach a position with each portfolio on what their future budget looks like. That is a normal part of the process.

Ross Greer: Thank you.

Liz Smith (Mid Scotland and Fife) (Con): Good try, Mr Greer.

I seek clarification on the £160 million that is being removed from social security. Of that amount, £148 million is a result of the UK Government changing eligibility criteria. The implication is that the remaining £12 million is to do with funding for staff and so on. Can you clarify that that is the case, because it seems to be quite a high figure?

Ivan McKee: I ask my officials whether we have information on that number.

Craig Maidment: The £12 million for social security staffing costs is linked to the savings that were outlined in the fiscal statement.

Liz Smith: Does the £12 million all relate to staffing costs, or does it include a set-up cost as well? It seems quite a high figure.

Ivan McKee: It relates to reduced workload and delivery costs for the winter fuel payment. Social Security Scotland had been planning to expand in order to be able to deliver that benefit, but that will not now be happening.

Liz Smith: I really want to ask about the transparency angle. Ms Hughes helpfully told us that a lot of work has been done to improve transparency through things such as better comparators.

Mr Maidment will remember a discussion that we had in the equivalent meeting at this time last year, when there was a bit of back and forth about whether the £31 million that was taken out of the rural affairs budget was ring fenced or not. If my memory serves me correctly, I think that Mr Maidment said that £14 million of that £31 million was ring fenced, but we had a bit of a debate about what ring fencing was taking place and what was being repurposed in other areas of the budget.

Are we any clearer about the decision making that goes on in relation to what is ring fenced and what is not? In relation to Michelle Thomson's questions, it would help our understanding of transparency if we could get a bit more detail on the reasons—the rationale—behind the Scottish Government's decisions to repurpose spending or to ensure that it is ring fenced, especially if it has been taken out of a particular budget and is supposed to be put back.

Ivan McKee: Do you mean within individual spend portfolios?

Liz Smith: Yes, I do.

Ivan McKee: That will depend on the circumstances. If we are in a situation in which unavoidable costs have been incurred elsewhere, in order to achieve balance we go through a

process of understanding what budget lines we might need to adjust. That will come down to a number of factors, including what spend has already occurred, what is committed, what we have made commitments on and those areas in which there may be underspend. A range of factors will come into play in making such an assessment. I do not think that there is a hard and fast way of determining that.

Liz Smith: Nonetheless, you will be aware that, from time to time, the committee has made the point that, in order to measure the effectiveness of the delivery of a specific policy, it is helpful to understand the rationale behind the decision to move money around. Do you think that the Scottish Government is getting better at increasing transparency in that regard? Some of the answers to Mr Marra's questions suggested that there is a bit of a cloud over why decisions have been made and on what basis it has been decided that such a repurposing of spend will help the priorities of the Scottish Government, which is what Michelle Thomson was referring to.

Ivan McKee: I think that we answered the points that Michelle Thomson made. The transfer from net zero was largely to do with the fact that Scottish Water sits within the transport budget and a technical adjustment was made to the way in which its loans are treated. It was absolutely not the case that we decided to make a big cut in net zero because it was no longer a priority.

With regard to your question about transparency, we are striving to become more transparent. We have made a commitment to do that, and I think that the fact that we are becoming more transparent is evidenced by the way in which we have treated this process.

Liz Smith: When it comes to the public's understanding of why Government makes a choice about what the money that they pay in tax will be used for and, more important, on what basis such decisions are made, it is an important principle that we should ensure that there is greater transparency for the public so that they can understand on what basis a specific decision has been made.

I cannot speak for the committee, but I think that we sometimes feel that it is not very easy for the committee to understand why a specific policy was put in place, given the other possible choices that could have been made. I would like to hear your thoughts on what we can do to improve that situation.

Ivan McKee: I am very happy to do that. There are many moving parts in this scenario. Many budget lines and different portfolios within them have different priorities and perspectives on how they want to spend the money, and there is an

overarching perspective on how we balance the budget, which lots of factors can impact at any given point.

We strive to be as transparent as possible and to explain why there are changes in specific budget lines in specific situations. However, considering only the top level, such as in the examples that we have looked at this morning, can perhaps be slightly misleading in relation to the reality of why specific budget lines have been increased or decreased. Quite often, it is about technical or demand-led issues, or it can be things that are—

Liz Smith: The demand-led scenario in something such as social security is a big, moving feast, however.

To go back to Michelle Thomson's point about the priorities that the Scottish Government has set out, how easy is it to reflect what the spending priorities are in relation to those policy commitments? I think that the committee would like to be able to understand that a bit better and to see the evidence about why specific choices have been made and how effective they have been in delivering those commitments.

I go back to, for example, the Joseph Rowntree Foundation's September report, which, as you know, was very supportive of actions to reduce child poverty but made a specific point that the evidence to show how successful that policy had been was pretty thin. In order to ensure the committee's overseeing the best possible spending of public money—and the probity that goes with it—the more transparency we can get, the more helpful it is.

Ivan McKee: I do not disagree. If we can do that, either around decisions that have been made or in terms of evidence-based policy, I would be delighted to work with the committee on that point.

Craig Hoy (South Scotland) (Con): Good morning, minister. Thank you for joining us. I do not want to reheat old coal for the sake of it, but I want to go back to the issue of the additional consequentials being factored in. You said:

"These amounts are broadly in line with our internal planning assumption and is factored into spending plans."

Could you provide the committee with the breakdown of that internal planning and, specifically, where you had factored into those spending plans either the reversal of cuts that you had planned or any additional expenditure that would flow from the consequentials?

Ivan McKee: We can certainly follow up with information on that.

Claire Hughes: To give you some clarity, we did not get confirmation of that figure until the UK

budget was set. There was so much uncertainty around that figure until we got formally told it in the UK budget in October. The range could be zero, or it could be £1.4 billion. We genuinely do not know until we get formal confirmation.

Craig Hoy: That is true, but this is to give the committee some comfort that you are not simply winging it. You were quite specific in your submission, which says that the figure was

"in line with our internal planning assumption and is factored into spending plans."

Had that money not come forward, would you not have been facing quite a significant increase in the problem that you identified through the ABR?

Ivan McKee: That is correct, yes.

Claire Hughes: We have levers, however. We are not at our maximum resource borrowing, so we could increase that. In her statement, the cabinet secretary announced £460 million of ScotWind revenue. We are now working to reduce that. We have still not made a final decision on whether to keep the funding for the winter fuel payment.

We still have levers at hand. We go through the financial year and take measured risks to ensure that we do not breach the budget and we use the levers that we have in hand to do that.

Craig Hoy: For the record, it is therefore accurate to say that you cannot really reconcile that statement with the ABR that was laid before the Parliament on 3 October. The two are inconsistent, are they not?

Ivan McKee: In what sense?

Craig Hoy: Well, in the sense that you were saying that the figure was "in line with" the

"internal planning assumption and ... factored into the spending plans,"

but it is, materially, £400 million more than you were expecting.

Ivan McKee: We said that it was broadly in line with what we expected.

Craig Hoy: But in October, you were saying that it was around £900 million to £1 billion, and now it is £1.433 billion, which is £400 million more, but in effect, you are saying that there is no—

Ivan McKee: A significant amount of that is health consequentials that we have committed to pass on.

Craig Hoy: Fine. In relation to public pay policy, can you say how much of that £1.433 billion will go into what I would call public service delivery and how much will go into public sector pay and pensions? The ABR is littered with references to increased pension contributions and public sector

pay. I know that public sector workers contribute to public sector delivery but, just for clarity, can you produce a breakdown of where that £1.433 billion is going between public services and public sector pay and pensions?

Ivan McKee: There is a slice of that. Again, not all the numbers are nailed down, but around £600 million will be for public sector pay. As I said, there is still uncertainty about the funding for the national insurance contributions, which we estimate will be around £500 million. We expect that there will be funding for that, but we are not clear how much it will be, when it will be and what it will cover.

You mention pensions contributions. The change in that was north of £300 million, and we can get the details on that. As I said, there are health consequentials coming through as part of that amount that we are committed to spend on health. It is clear that there are cost pressures there, with health inflation typically running higher than inflation across the rest of the economy. We can give you a more specific breakdown on that if you require it.

Craig Hoy: Looking at the ABR announcement, I see that you identified £65 million of savings in measures that would not proceed, additional emergency measures that would save £188.4 million and up to a further £60 million of savings that are anticipated to be generated through the emergency spending controls. Will you still proceed with the additional £60 million that presumably would have come into the SBR?

Ivan McKee: The spending controls are still in place. The recruitment controls are in place. As I identified, we are accelerating a significant amount of work on how we seek to drive more efficiency through reduced savings in corporate spend, because it is the right thing to do.

Craig Hoy: Will that be reported in the SBR? Do you have any projections on how you are doing against that target of £60 million?

Craig Maidment: I do not have details of the projection at the moment, but the intention, similarly to what was included in the guide this year, is to provide a reconciliation back to the fiscal statement savings in what is included in the SBR.

Craig Hoy: On a technical point, the guide says that the savings in the health and social care portfolio have been retained and are not included as funding reductions in the ABR. What is the reason for retaining those potential savings?

Ivan McKee: There are significant pressures on health spending, as we have identified. It is of course a priority spend area as we seek to address challenges in health delivery. As I said,

the biggest part of the consequentials that come through are passed on to the health service.

Craig Hoy: On a wider point about public sector pay, the size of the public sector in Scotland is another thing that contributes to the long-term issues that you face. Do the consequentials meet the increased salaries that Scottish public sector workers earn and the fact that there is a higher percentage per capita of public sector workers in Scotland, or do you have to look to other budgets to address the issue?

Ivan McKee: The nature of the numbers makes the pressure more challenging because of how the consequentials that flow through are worked out. Clearly, the money that flows through is a function of the decisions that are taken on total spend and tax by the UK Government. However, if you look at the public sector pay requirements for a given percentage increase in the rest of the UK, the proportionate increase in Scotland would be higher.

Craig Hoy: Could there be a structural shortfall this year?

Ivan McKee: We make different decisions in Scotland about how we spend money, whether it is on tuition fees, prescription charges, the Scottish child payment, higher pay for nurses and teachers or a range of other decisions that we make based on what our priorities are and how we want to spend that money.

Craig Hoy: In terms of in-year this year and looking forward to next year, what calculations did you make in relation to public sector head count, and are you on track? I note that, for example, in March 2023-24, the devolved civil service grew by 1.9 per cent, other public bodies by 2.8 per cent, the NHS, understandably, by 3.4 per cent and public operations by 6.1 per cent. Will the size of the public sector at the end of this year be what you have forecast and factored in?

Ivan McKee: We can come back to you on the specifics on that, but there is absolutely a focus and a determination to address the challenge that you have outlined. To be clear, in terms of front-line services, we think that it is important that we have more doctors, teachers, midwives, nurses—

Craig Hoy: Police officers.

Ivan McKee: —and police per head of the population than there are in the rest of the UK. That is very important and that is the position that we want to maintain. However, it is also absolutely clear that the spend on the public sector in general, in the area that we call corporate services, is something that we are working very hard to address. As I said, that includes recruitment in Government and more widely in those non-front-line occupations.

Craig Hoy: Can you benchmark in relation to that and look forward to future years?

Ivan McKee: Yes, I would be quite comfortable with assessing where we are and laying down projections as to where the policies that we are putting in place would take us.

Craig Hoy: Finally, looking to the budget on 4 December, you were quite accurate, or quite lucky, in your planning assumptions in factoring in what you got in-year for this year. Is the £3.5 billion for next year broadly in line with what you had factored in in your expectations?

Ivan McKee: We had this conversation earlier. If you unpick that figure and look at the difference between resource funding for 2024-25 versus 2025-26, you find that the increase in real terms is just over £300 million—from memory, it is £328 million—which is less than 1 per cent. Does that mean that there are no pressures going forward? It does not because, as we know, there are always challenges in, for example, health spending.

Craig Hoy: We discussed that figure earlier. Would you be able to give the committee a breakdown as to how you have arrived at that £300 million number, relatively—

Ivan McKee: Yes. The increase for this year is £1.4 billion on resource and £72 million on capital, and the number for next year is £3.5 billion, so the difference between 2024-25 and 2025-26 is about £2 billion. When you take inflation into account, that number is just over £800 million in real terms, of which £500 million is capital and, as I said, £328 million is resource spending. That £500 million capital increase effectively takes us back to where capital spend was in 2023-24, before the significant cuts that happened in this financial year. I will write that down for you, if it helps.

Craig Hoy: Yes.

Finally, as Mr Marra identified, you have ended up being quite lucky in the sense that the money came in to plug what was, as you conceded, a growing gap. From the Scottish Government's budgeting and processes perspective, what lesson have you learned out of this year about what you would not repeat in future years?

Ivan McKee: It is a lesson. The process that we go through is managing and predicting a large number of areas and a great number of unknowns, both on the revenue and the spend side. You have to make assumptions on those, otherwise you could not function. You have to do that in the context of reaching a balanced budget. We fine-tune some of that process on an on-going basis. There is no big lesson that you would learn. It is about looking at how accurate some of our assumptions were in the context of what we knew

then and what we know now. That builds up our ability to make those assessments going forward.

John Mason (Glasgow Shettleston) (Ind): I am fascinated by the use of the word "lucky" in this meeting.

Ivan McKee: I have not used the word "lucky".

John Mason: No, but some of my colleagues have. I think that we are lucky to get rid of the Conservatives, anyway.

I will move on to some more detail. The figure on the council tax freeze has been revised. I think that it was going to be £144 million, and an extra £3 million is going into that. Can you comment on that? Was it uncertain?

Ivan McKee: Yes, the calculation was done, and that is where the figure ended up. Clearly, there are a lot of variables in there from across all the different councils.

John Mason: Did that involve negotiations rather than being a kind of arithmetic exercise?

Craig Maidment: Yes, there were discussions with the Convention of Scottish Local Authorities following the initial £144 million figure, and that reflected a roughly 5 per cent increase in council tax across Scotland, so that is where the slight refinement was made in the following months.

John Mason: As I understand it, because changes were made to the £148 million allocated for the winter fuel payment by Westminster in the current year, technically, we could spend it, but we would be borrowing the money and would have to pay it back again. How does that fit into the budget? Will the money be spent this year, or will it be set aside?

Ivan McKee: I do not know whether we have made a final announcement on our decision on that.

Claire Hughes: We have not made a final announcement. In the ABR, we have deducted it from the funding, so we have not reallocated it, but we have not officially notified the Treasury that we are handing it back. There will be a final decision on that in due course.

John Mason: Will that be in the spring budget revision?

Claire Hughes: It will definitely be confirmed before the spring budget revision.

Ivan McKee: We can either hand it back this year, in which case Mr Marra would say, "Why have you not kept it for next year?", or we can hand it back next year, in which case, Mr Marra would say, "Why did you not spend it this year?" We are still to announce the decision.

John Mason: It is a lose-lose situation from the Government's point of view.

I will ask about a couple of other issues. Is it the case that the peak fares pilot and the asylum seekers bus fares pilot were not in the budget and that therefore no savings will be made by cancelling those, or have I misunderstood?

Ivan McKee: Even though it is in the budget, there is still a saving from cancelling it.

Claire Hughes: The extension of the pilot scheme was not funded. The funding for the initial pilot was in the budget, but the extension of it was not, and it was decided not to extend the scheme.

John Mason: So, if the scheme had been extended, that would just have added pressure to the budget.

Claire Hughes: Yes.

John Mason: My final question is about financial transactions. I realise that some of this will get a bit technical. As I understand it, the financial transactions were dramatically reduced by Westminster and we are not yet certain what the figure for the current year will be. There is a suggestion that there is an overallocation of £25 million, which would have to be covered from the rest of the capital budget. Have I understood that correctly?

Ivan McKee: Yes. There will be unknowns in there, such as slippage on programmes, and other factors that will need to be taken into account. We will make an assessment when the dust settles and make adjustments.

John Mason: Has the new Government at Westminster eased off on financial transactions? In the past, that budget was quite important for house building.

Claire Hughes: We have seen a cut to our financial transactions budget. I do not know whether Craig Maidment has the exact figure.

Craig Maidment: The real impact was on the previous financial year. Late in the day, the supplementary estimates that we received confirmed that our funding was going to be reduced to the tune of £63 million. That was beyond what had been indicated, so the UK Government allowed us to defer £53 million, which is why we have effectively started the financial year with quite noticeable pressure. That has been managed down in-year, with roughly half of it being funded through income from the transport FT scheme—I have forgotten the name of it, but it is included in that.

As the minister said, we expect further slippage and possibly some refinement in the final funding figures. If that materialises, we will be able to utilise the capital funding that has been held back

at the ABR. If not, we can use the capital funding to offset the overallocation. The UK autumn budget statement did not include any movement on our total FT budget, but it is materially down on what it has been previously. It looks as though £167 million will be the baseline budget but, for the few years prior, it was north of £300 million.

John Mason: The minister said that the capital funding went down and has come back to roughly where we were, but the financial transactions allocation has gone down but not come back up. Is that correct?

Craig Maidment: Yes. There had been an assumption that there may not be any FT budget going forward—that would be the direction of travel. The UK Government's autumn statement indicated that £167 million would be our baseline. That is still significantly lower than it was previously.

John Mason: That was feeding into the housing budget, so the cut is continuing to put pressure on that.

Ivan McKee: Indeed.

The Convener: I thank colleagues for their questions.

Agenda item 2 is formal consideration of the motion on the instrument. I invite the minister to move motion S6M-14800.

Motion moved,

That the Finance and Public Administration Committee recommends that the Budget (Scotland) Act 2024 Amendment Regulations 2024 [draft] be approved.—[*Ivan McKee*]

Motion agreed to.

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

As that concludes the public part of the meeting, we will move into private session to consider the remaining agenda items.

12:00

Meeting continued in private until 12:15.

This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

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

All documents are available on
the Scottish Parliament website at:

www.parliament.scot

Information on non-endorsed print suppliers
is available here:

www.parliament.scot/documents

For information on the Scottish Parliament contact
Public Information on:

Telephone: 0131 348 5000

Textphone: 0800 092 7100

Email: sp.info@parliament.scot



The Scottish Parliament
Pàrlamaid na h-Alba