



OFFICIAL REPORT
AITHISG OIFIGEIL

Finance and Constitution Committee

Wednesday 7 October 2020

Session 5



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PRE-BUDGET SCRUTINY 2021-22 AND AUTUMN BUDGET REVISION 1

FINANCE AND CONSTITUTION COMMITTEE

25th Meeting 2020, Session 5

CONVENER

*Bruce Crawford (Stirling) (SNP)

DEPUTY CONVENER

*Murdo Fraser (Mid Scotland and Fife) (Con)

COMMITTEE MEMBERS

*George Adam (Paisley) (SNP)

*Tom Arthur (Renfrewshire South) (SNP)

*Jackie Baillie (Dumbarton) (Lab)

*Alexander Burnett (Aberdeenshire West) (Con)

*Angela Constance (Almond Valley) (SNP)

*Patrick Harvie (Glasgow) (Green)

*Dean Lockhart (Mid Scotland and Fife) (Con)

*John Mason (Glasgow Shettleston) (SNP)

*Alex Rowley (Mid Scotland and Fife) (Lab)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Kate Forbes (Cabinet Secretary for Finance)

Scott Mackay (Scottish Government)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

Virtual Meeting

Scottish Parliament

Finance and Constitution Committee

Wednesday 7 October 2020

[The Convener opened the meeting at 09:02]

Pre-budget Scrutiny 2021-22 and Autumn Budget Revision

The Convener (Bruce Crawford): Good morning and welcome to the 25th meeting in 2020 of the Finance and Constitution Committee. We have received apologies from Alasdair Allan, who joined the committee last night. George Adam is attending as a substitute member. Welcome back, George; we have missed you.

Agenda item 1 is to take evidence from the Cabinet Secretary for Finance as part of our pre-budget scrutiny. The session will also include evidence on the Budget (Scotland) Act 2020 Amendment (No 2) Regulations before we formally consider the motion on the regulations.

I welcome Kate Forbes to the meeting. She is joined by Scottish Government officials Dougie McLaren, deputy director, public spending; Scott Mackay, head of finance co-ordination; and Fiona Thom, head of income tax and reserved taxes unit.

I invite Ms Forbes to make a short opening statement.

The Cabinet Secretary for Finance (Kate Forbes): Thank you, convener. I will speak briefly, because we have had a budget-heavy two weeks; I have already given statements to Parliament on the autumn budget revision and the delayed United Kingdom budget.

The autumn budget revision is a second opportunity for Parliament to scrutinise the funding commitments that we have made in responding to the crisis, following the earlier, additional summer budget revision. The autumn budget revision was published on 24 September and details the second phase of the response. As the committee knows, it is a snapshot of a developing funding position, which brings the total Scottish Government financial response to Covid to more than £6.5 billion. That includes £4 billion at the point of the summer budget revision and £2.5 billion at this point.

The autumn budget revision allocates £2.55 billion of Covid-19 and other funding changes. That is being funded through £2.4 billion of Barnett consequential, £142 million of reprioritisation and

£30 million of capital reserve drawdowns. Of the Barnett consequential, £1.84 billion is allocated to health and social care, which reflects the fact that the crisis is, first and foremost, a health crisis, and we have committed to pass on in full all health-related consequential.

The net increase to the Scottish budget is £2.4 billion. That leaves formally unallocated just over £500 million of the total of £6.5 billion of Covid-19 resource consequential that we have been guaranteed to receive from the UK Government in the current financial year. The residual Scotland reserve position is currently £220 million, of which only £70 million is resource.

The unallocated funding is currently being used to address the substantial current and anticipated Covid-19 funding requirements, which are already embedded in our budget position. Funding for those commitments and pressures will be formally added in the spring budget revision. To reiterate my comments in the chamber, I say that, as things stand, there is no headroom. Although I have welcomed the UK Government funding to date, I have continued to press the UK Government for additional fiscal flexibilities to support the Covid-19 response appropriately.

I have already mentioned my concerns about the decision to scrap the autumn UK budget, which is extremely concerning. Given that I appeared before the committee last year to discuss the same issue, I am sure that committee members will join me in recognising how difficult that makes our own budget process, including the vital role of scrutiny.

Last month, I wrote to the committee regarding the publication by HM Revenue and Customs of outturn figures on Scottish income tax for 2018-19. The letter highlighted that the net reconciliation effect is a £309 million reduction in our funding for next year, and I set out in it the calculations behind that figure.

In September last year, my predecessor wrote to the Chief Secretary to the Treasury to discuss the fact that the current borrowing and reserve powers in the fiscal framework are insufficient to deal with the volatility that is inherent in the operation of income tax, and I will continue to press that point.

I will stop there—I look forward to taking questions from the committee on any of those areas or on other areas of interest.

The Convener: Thank you, cabinet secretary. With regard to the UK Government funding guarantee of £6.5 billion of additional Barnett consequential relating to the Covid-19 emergency, the autumn revision confirms that there is, as you said, just over £500 million

remaining. What considerations will you take into account in allocating that financial resource?

I am aware that those matters were covered to some extent in your statement to Parliament yesterday and in your answers to questions in the chamber. Nonetheless, it is important for the public record that we follow up on that as part of our committee evidence taking. Other committee colleagues will follow up with questions in specific areas. It is over to you, cabinet secretary.

Kate Forbes: It may help with subsequent questions if I explain a little about the background to the guarantee. In July, the Chief Secretary to the Treasury confirmed—this is unprecedented—that he would provide a guaranteed funding floor to help us with our forward planning on the budget. Media attention is often focused on the unconstructive dialogue that sometimes takes place between Governments, but the guarantee was a welcome result, because it meant that we could plan for the future, not just deal retrospectively with our budget position.

For example, we have forecast the costs of maintaining our transport networks between now and the end of the financial year. I know that I need to hold at least £200 million as a bare minimum for those networks, and the core costs are likely to increase over time. There is also money set aside for Covid-19-related pressures and loss of income in education, and there are forecast costs relating to the payments for those who are self-isolating or shielding. There are also a number of other areas to consider.

When the UK Government makes any announcements that generate consequentials, we are informed that those consequentials are already captured in the funding guarantee that was announced in July. In other words, it is unlikely right now that there will be any additional funding coming, because any new announcements that generate consequentials have already been captured in the July announcement.

That is why there is a tension in this budget revision. We cannot formally allocate all the spending because some of it is anticipated forecast costs in the future. As members will know, the budget revision is a retrospective process that updates the budget formally. For that, we need confirmed figures.

I am in dialogue with the Treasury on how the Barnett consequentials that would be expected to flow to the Scottish Government reconcile against the funding floor. I hope that we will reach the end of the funding floor, meaning that all future announcements that generate consequentials will provide additional funding that we can then start to use and connect to new and emerging costs.

I am sorry that this is a long answer, but it is important to set out the detail. Current indications are that the Barnett funding allocations to UK departments are now at around the level of the guarantee, which would mean that further announcements give rise to further consequentials. However, we need clarity through a reconciliation of all the consequentials arising from announcements that have been made to date against the funding that was confirmed in July.

There has been significant difficulty in tracking the individual consequentials arising, particularly where initiatives are demand led. As an example, the self-isolating payments are demand led in England, which means that it is difficult for the UK Government to confirm what consequentials might arise. That makes it difficult for me, with no headroom at all, to design our self-isolating payments, because they may or may not be covered by the consequentials that emerge.

My last point is that this year is obviously unprecedented and next year's budget will be unprecedented, but the funding needs far outstrip the funds that are available. It is extremely challenging to design demand-led schemes when we do not know what funding cover will arrive from consequentials. I realise that that was a long answer, but the point around funding guarantees from the UK Government was largely overlooked in the summer. It is welcome.

The Convener: That was helpful. It anticipates some of my follow-up questions, but it is still worth boring down into it a bit, cabinet secretary. As I understand and from what you have said, any additional funding for England will not generate additional funding for the Scottish Government until the Barnett formula implies that the total amount should be greater than the £6.5 billion guaranteed funding floor. The committee's adviser told us that there is potential confusion around tracking what Scotland is due in terms of Barnett consequentials. Have you and the Treasury confirmed that you can spend up to the full level of the £6.5 billion guarantee? What arrangements are in place to let you know whether you can spend beyond that figure? What discussions have you had with Treasury ministers, what agreements have been reached and, crucially, how do you propose to communicate any further information to Parliament?

Kate Forbes: That characterisation is largely accurate. There is on-going discussion between my officials and Treasury officials to get clarity on a reconciliation of all the announcements that have been made to date that generate consequentials and how they track against the funding guarantee. I have a sneaky suspicion that the announcements are starting to exceed the funding guarantee—in other words, that the

relevant announcements have generated sufficient consequential to exceed that guarantee—but we do not know that yet. The Treasury says that it will try to confirm that in November, but we will need to design initiatives and schemes between now and November. That is clear today of all days. How do we support localised lockdowns when we do not know whether those in England have generated consequential additional to the money that we have already received?

The other question about announcements is whether they come from reprioritised funding at the Treasury, which does not generate consequential, or whether they generate additional consequential.

What I am trying to say is that the funding guarantee was welcome, because it helped us to independently plan over the summer. The difficulty now is that I suspect that we have got to the limit of that £6.5 billion and it is highly likely that there will be additional consequential; the problem is that I will not know that until November at the very earliest, but in the meantime we have to proceed with localised lockdown support, self-isolating payments and continued support for our transport networks. It was a positive initiative, but it needs to be updated, and we need the reconciliation of announcements to date and how they track against the funding guarantee.

09:15

The Convener: I get that, cabinet secretary. Obviously, it is a complex issue and we are operating in a detailed and challenging area, but if the Government is finding it challenging, the Parliament is finding it challenging to know what is going on. What commitment can you give to ensuring that there is as much transparency as possible in the system for the committee and Parliament?

Kate Forbes: I apologise—I missed that last part of your original question. I am open to any suggestions that Parliament or the committee have for additional transparency. Obviously, there have been calls for publishing lists of spending requirements and costs. That will be done in the spring budget revision, but I realise that that is a number of months away, so if it would be helpful to update the committee on my engagement with the Treasury on that point, I would be happy to write a letter to the committee when we have additional information. If the committee has another view on the information that it would like me to provide, I am open to looking at how we do that transparently. Our approach to date has been to try to set that out transparently, which is why we have the summer budget revision, but if there is more that we can do, I would be happy to oblige.

Murdo Fraser (Mid Scotland and Fife) (Con): I will follow up on the convener's questions. I thank the cabinet secretary for the clarity that she has provided. I am interested in understanding a bit more about the allocation of the £537 million that the convener referred to, which, as you have said, is not formally allocated. In your statement to Parliament yesterday, you said of that sum that

“Every penny has been allocated against the health, transport and economic support measures that have been required as part of our Covid response”,—[*Official Report*, 6 October 2020; c 7.]

but in the response that you have just given to the convener, you have phrased it slightly differently. You are suggesting that you have made forecasts of likely cost pressures and have, in effect, pencilled in against that money how that £537 million might be allocated. Can we be clear? You said yesterday that the money has been allocated, but you are suggesting this morning that, in effect, it has been allocated only on a provisional basis—which is it?

Kate Forbes: It might be helpful if I give a direct example in relation to transport. We have very reliable estimates and forecasts from the various transport operators of what it will cost to keep transport moving between now and the end of the financial year; we have that for rail, bus and light rail. We can be confident of what the costs will be. As with any cost and any budget, there is risk attached—for example, those costs will rise if we go into greater lockdown restrictions or if we change the regulations that transport has to adhere to—but we have relatively reliable costs for transport. It is incumbent on me to make sure that I can continue to support the transport network, not only to this point in time, looking retrospectively, but between now and the end of the financial year. Those costs are not in the budget revision, but they are real costs, and I cannot just live on a wish and a whim that additional consequential may be coming and spend all I have right now; I need to hold those costs against the costs that we know of in transport.

That is why there is a tension in saying that any future costs are forecast to an extent but they are real forecasts and they have a real impact. I can also use examples in local government. I hope that, in the next few days, I will be able to announce full details of the package of support for local government in terms of fiscal flexibilities and the lost income scheme.

Again, we have got a ballpark figure for the lost income scheme, but it is demand led. It will be application based. I have to have sensible, wise, informed and prudent budget cover for that. The same goes for the example that I gave you on the self-isolating payments. I have to have intelligent

budget cover for that; it is not money that is sitting in a rainy-day fund that we might or might not use. My point is that, although you might not necessarily see it in this budget revision, because a budget revision is retrospective and has to be based on fact, those are all real costs, and I strongly emphasise that those real costs outstrip the funding that is available. That is why I hope that we will soon be in a position in which the consequential generated by UK Government announcements exceed the guaranteed funding floor and we can start looking at the other costs that we have not been able to fund yet.

Murdo Fraser: Thank you; that is a helpful answer in that it gives us greater clarity. However, to refer back to the convener's final question about parliamentary scrutiny, I presume that you are already aware where you have pencilled in how the money is to be allocated. Can you do more to share with the committee and Parliament how the funds are likely to be addressed, rather than us having to wait until February before we find out how all that money has been formally allocated?

Kate Forbes: I will give that careful thought. The caveat to all that is that we are operating within a fluid situation. I am not looking for any sympathy here, but one of the challenges of this job is that things are moving and changing at great pace. If I use the transport example, we will obviously hear over the next few days what further restrictions there might be, if any. That changes almost overnight the funding required because it might be that areas with localised lockdowns need additional support or that transport companies need additional support.

In one sense, any figures I could provide would probably be out of date as soon as there was a change in what we are managing. I am happy to give some careful thought to what additional information I can provide the committee with, but I do it with the heavy caveat that it would be a snapshot in time in the middle of a dynamic and fluid situation; also, in November—I hope it will be November—the reconciliation will give us the clarity that we need about how much of the UK Government's announcement is new money, and how much of it is just incorporated within its previous announcements or is from reprioritisation.

Murdo Fraser: Thank you for that. It would be helpful for members of the committee to get some more detail about that because, as I am sure you will be aware, and all colleagues and parliamentarians will be aware, we constantly get requests from constituents who are looking for us to ask for more support, whether it be for tourism, hospitality, football clubs, wedding venues, soft play centres and so on—everybody is looking for more money. To get an understanding of what has been pencilled in would be very useful.

I want to ask another question on a slightly different area, which is on the Scotland reserve—

The Convener: Murdo, before you move on, Angela Constance has a supplementary in this area. I will come back to you immediately afterwards. I think that Angela has a question about the consequential issue; am I right, Angela?

Angela Constance (Almond Valley) (SNP): Yes, I have one short question. Cabinet secretary, for absolute clarity, are you currently spending in areas where you have yet to receive consequential? In other words, are you putting money out the door when you are still waiting on the cheque arriving in the post?

Kate Forbes: We absolutely are, at two points. The first is where we have taken a distinctive approach. The most obvious examples of that are the distinctive package of business support measures—such as the pivotal resilience fund and the hardship scheme—and the £350 million welfare and wellbeing fund, which I established as part of our response at the beginning of the crisis to ensure that community groups were resilient and the third sector could continue to support communities. That spending was based on our own budget; it was not funded by additional consequential—it was distinctive.

The second point is where we are currently operating at risk. We have to proceed with initiatives and schemes without having the clarity of whether the funding will come from additional consequential. The best example of that is the self-isolation payment. As we speak right now, I do not know what consequential might be confirmed for that, because it will be demand led. Therefore, I have to proceed in designing and funding a scheme with an element of risk. We will have that scheme and we are committed to it, but I do not have clarity on the cover from the UK Government, and we will not have that until November.

The Convener: Alex Rowley, is your supplementary related to consequential? If so, you may ask it before we return to Murdo Fraser.

Alex Rowley (Mid Scotland and Fife) (Lab): Yes, I will pick up on that point. The cabinet secretary says that it is a pretty fluid situation and she talks about demand-led budgets, but my experience of demand-led budgets is that when they run out, they run out. What kind of strategic planning and thinking is going into where moneys are being directed and spent? From what you have said so far, cabinet secretary, it is almost like your job is simply to keep throwing money at issues, but we know that the money will run out. Are you thinking strategically about the medium

term, the jobs crisis and so on when you are spending the money?

Kate Forbes: To clarify what my job is, it is to make sure that money does not run out and that we can continue to honour the commitments that we have made. Therefore, when it comes to something as critically important as self-isolating payments, my job is to ensure that there is adequate budget cover for them, even though they are demand led. The purpose of that scheme is to ensure that we do not disincentivise following the rules, so we provide the support that enables people to follow the rules and the guidelines.

Alex Rowley picks up on a great example of the point that I have been trying to make, which is that, with all these schemes, and in a fluid situation, I need to make sure that we have budget cover for the areas that are vitally important.

There is clearly huge demand. Murdo Fraser talked about requests from his constituents, which I understand in full, because all those requests from his constituents and other people's constituents end up being requests to me. There is a lot of demand at this difficult time—for business support and welfare support, to ensure that we have funding for the health service, to ensure that we manage any second wave and to ensure that we have winter cover. Those are all significant demands, and they are not always just in the millions of pounds—sometimes they run into the billions. That level of demand is what I am trying to manage in a fluid situation.

It is my responsibility to make sure that there is cover for important announcements, whether that is for the self-isolation payments or other schemes.

The Convener: I will go back to Murdo Fraser.

Murdo Fraser: Thanks, convener. My question, which is on a related point but from a slightly different angle, is about the Scotland reserve and the balance in it. According to table 1.7a in the autumn budget revision, the Scotland reserve balance at the start of the year was £433.7 million and it is forecast to increase to £758.7 million. How much of that total might be available for deployment in terms of spending?

09:30

Kate Forbes: I may bring in one of the officials to answer specifically on the reserve.

The updated position of the Scotland reserve is based on the provisional out-turn and on subsequent commitments that were made in the Scottish budget and in the summer budget revision. The balance drawn down in the autumn budget revision is £30 million.

Regarding the residual balance, you are right in saying that it is £759 million. Any additional underspend, particularly on capital, will result in net additions to the Scotland reserve. Very little of that overall amount is resource; most of it is capital and financial transactions.

Scott Mackay can give more information about the reserve.

Scott Mackay (Scottish Government): The figure that Murdo Fraser is referring to is a combination of the £537 million of as-yet-undeployed consequential funding and the remaining balance in the reserve, which is about £220 million, of which £70 million is resource. The rest is a mixture of capital and financial transactions.

The majority of that £758.7 million is the figure that we have already been discussing as being available for application at the spring budget revision.

Patrick Harvie (Glasgow) (Green): I want to pursue the issue of that unallocated resource that we will hear more about in the spring budget revision.

How does the process within the Scottish Government work? You have said that the issue is being discussed between the Scottish and UK Governments, but there must already be a process within the Scottish Government for telling individual departments or public bodies how much of the as-yet-unallocated money will be available to them.

You have already told the Parliament:

“Although they are not formally allocated here, the remaining consequentials are already being redeployed”—
[*Official Report*, 29 September 2020; c 6.]

You have just told Angela Constance that the money is already being spent. Individual departments and public bodies must surely have been told by you how much of that money is available to them. If you are able to tell them, why are you not yet able to tell us?

Does the currently allocated part of the consequentials all come out of the same portion of the financial year across all spending lines, or does it vary from subject area to subject area?

Kate Forbes: Regarding your question about the process, we do not go out inviting bids for unspent money. Any organisational budget looks at what has actually been spent as well as at the forecast spend. To use another example, we have provided funding for employability skills. We do not provide funding only for a limited period such as a few months. We must ensure that that is funded to the end of the financial year. We look back as well as forward to provide that guarantee.

In my conversations with the Treasury in late spring and early summer, my consistent message—which I shared with Parliament—was that it was difficult to plan ahead beyond the next UK Government announcement because we could not get confirmation, and could not guarantee, that funding would be available to the end of the financial year.

We were already holding significant cost pressure, including on transport, as I have already mentioned, and the anticipated spend on health over the winter period. Those costs have been on the books for quite a while, as far as I am aware, and the challenge for me was to identify budget cover to allow the health service to plan ahead or to allow transport operators to proceed.

Those cost pressures were there already. When the UK Government made its funding guarantee, that meant that, regarding the cost pressures that the national health service had identified, I could reassure the NHS that there was some budget cover for it to go ahead and plan accordingly. The same goes for transport operators—I am just giving those two examples.

It is not a case of holding money and inviting people to bid; it is a matter of being fully and acutely aware of the spending pressures across the Scottish Government, the public sector and society and being able to meet those costs as and when money is available. That is why I say that every penny is committed. I could easily commit double what we have. It would be easy for Covid-related costs to exceed what we have available—probably threefold or fourfold. That is why the notion that there is anything sitting there uncommitted is nonsense.

I think that the biggest bulk of the spending guarantee that the UK Government made relates to transport, as it, too, is dealing with significant pressures on its transport system, particularly rail. We do not yet have the breakdown of precisely what figures in the spending guarantee are linked to the announcements that have been made, which is what I am pressing for.

I scribbled down the second part of your question, but I cannot read my own handwriting—could you remind me what it was?

Patrick Harvie: It was about the certainty that Scottish Government departments and Scottish public bodies have about spend. If you are already spending the money—you have told Parliament that you are, and you told Angela Constance a few minutes ago that you are—then the Government departments and the public bodies that are responsible for it must know what they have. At what point can you give Parliament the information that you have already given those spending bodies?

Kate Forbes: I do not wish to sound like a broken record or to be unhelpful, but the spring budget revision is the point at which we can give perfect clarity. In advance of that, I can give reasonable certainty and clarity to various public bodies. The situation is fluid, and that is why—

Patrick Harvie: Yes, I—

Kate Forbes: I am trying to plan as far ahead as—

Patrick Harvie: We are all aware that it is a fluid situation and that it is very challenging. You and I both wish that Scotland had greater control of the overall financial envelope that is available to Government. Within the context in which we are working at the moment, however, it seems to me that some of what you are saying does not quite tally with what is happening. You have said that you want to ensure that public services know that the money will not run out. You have spoken about local government, financial flexibility and the replacement of lost revenue, and there will be some announcements over the coming days. That is very welcome, because there are services that are not yet reopening because of the financial pressure around lost revenue.

You have also emphasised transport. As regards the situation of ensuring that money is constantly available, we know that that has not been the case. Strathclyde Partnership for Transport has been given emergency funding for the subway in Glasgow, but that funding ran out a week ago—it only covered up to the end of September. If SPT does not have confidence now that that funding will be continued, it will face a financial black hole that will threaten not only subway services but other public transport services across the whole Strathclyde partnership for transport region. When can SPT, to take that one example, have confidence that the emergency funding—which has already run out—will be extended and that those services will be safeguarded?

Kate Forbes: When I have the budget available to do that. I am saying not that we have unlimited funds that can cover all our current pressures but that we have used the available funding to meet such pressures and, as far as possible, to prioritise public services as well as those in the transport sector.

As I have said, I could easily spend three or four times the budget that we have available. We are not currently able to meet every single penny of cost that I can identify. That comes back to the point, which I made both to the committee earlier this morning and in the chamber last week, that no headroom is available but we are using our available funding to meet the identified costs—

although not all of those, because there is not sufficient budget to do so.

Patrick Harvie: You have said that there is no headroom, but you have also said that £200 million of unallocated resource is pencilled in or earmarked for transport, so you must already have an idea of how much of that will go to a provider such as SPT.

Kate Forbes: But it will also go on the rail service, including the light rail service that you have identified, and on buses, ferries and other services such as the Highlands and Islands air service.

Patrick Harvie: I appreciate that, but we cannot wait until spring to find out.

The Convener: Okay, Patrick, you have had—

Kate Forbes: That is why we want to provide as much clarity as possible that there is not an unlimited budget to meet all the costs.

The Convener: I am sorry, Patrick—we need to move on.

Jackie Baillie (Dumbarton) (Lab): Good morning, cabinet secretary. My question is on reprioritisation of existing Scottish budget lines. I see from the table in front of me that there is £50 million of underspend on heat networks and another £50 million of underspend on the Scottish National Investment Bank. How did those underspends arise? What has not happened as a result of those underspends?

Kate Forbes: My understanding is that in both cases the underspend relates to capital that it has not been possible to spend because work was suspended during the lockdown period. Similar underspends and reprioritisation emerged in the summer budget revision that directly related to work not proceeding. None of that money has been wasted, because all of it has been redeployed into other areas as part of our response to Covid. If it relates to FTs, we will have used some of it on welfare. If it relates to capital, we will have used some of it on the £230 million return-to-work capital recovery package.

Jackie Baillie: It is helpful to know that. Could you give the committee a written list of the ways in which that money is being redeployed? I am concerned that, at a time when fuel poverty is rising and businesses are struggling, that money is being lost to those budget heads. I appreciate that reallocation might have occurred, but overall there is genuine concern about that.

I turn to what might seem like a small matter, but it is certainly a big issue for the community that I represent. I refer to the Whitehall transfer of £6 million through the devolution of the debt advice levy. I do not think that that money has been

allocated yet, but I would welcome confirmation on that point. I think that the cabinet secretary would agree that the real gap in that area is in front-line advice services. In particular, there is a lack of provision of advice workers both in local authorities and in the voluntary sector, at a time when we face a substantial unemployment crisis and therefore an impending debt crisis. What action can the cabinet secretary take to ensure that that money goes out of the door quickly and goes towards providing front-line advice workers?

Kate Forbes: I will be happy to add that to a letter of response on precisely what we have done on debt advice. We continue to seek to ensure that there is sufficient budget for welfare support and advice services. Clearly, there are currently greater demands on all such services, and especially on initiatives such as partnership action for continuing employment in relation to unemployment and redundancy matters, which Ms Baillie mentioned. However, it would probably be more appropriate for me to ask Jamie Hepburn, who is the minister responsible, to provide additional details on the debt advice service.

09:45

Jackie Baillie: That would be very helpful.

My last question is about employment support. The tables that I am looking at suggest that £90 million of Barnett consequential has been allocated for employment support, which is welcome. How much has been allocated from the Scottish Government's existing budget lines to boost that support? The cabinet secretary knows that the scale of the jobs crisis that we are about to face is enormous—it will be like nothing that we have ever faced before. The real prize is not in what the UK Government or the Scottish Government does in isolation; they need to work together to maximise the amount of input. What discussions have there been between the Governments about ensuring that employment support reaches those who need it most?

Kate Forbes: On the question of funding source, as has been outlined, there is £142 million of reprioritised funding in addition to Barnett consequential. I cannot trace back spend to precisely where it came from; that is not how our budget works. However, the £90 million that Jackie Baillie identified is resource funding for employment support and training costs, which includes funding for the job guarantee for young people and a new national retraining scheme. Some of the funding will come from redeploying existing means of support and some of it will be new money. The majority of the £90 million is, of course, new money. As part of our wider package of support for unemployment and training costs, we will ensure that the existing schemes that we

have in place are refocused on helping people to deal with the impact of Covid-related redundancies, but there will also be some brand-new money.

Jackie Baillie: I have a quick follow-up question, because I have a slight concern. I think that the package that Fiona Hyslop announced was for £100 million, which suggests that £10 million has been reprioritised. Given the scale of the job losses that we will face, I am very nervous that money has simply been repackaged. We need to increase the scale of the resource that is available, so what plans does the cabinet secretary have to do just that?

Kate Forbes: To confirm, the £100 million that was announced just after the chancellor's statement in July was new money. Part of the funding for the £100 million guarantee came from the fact that we did not replicate the UK Government's cut in stamp duty land tax for our equivalent of that, land and buildings transaction tax. That meant that some resource was available, which we used for employability.

John Mason (Glasgow Shettleston) (SNP): I will change the direction of the discussion a little bit. I am looking at the cabinet secretary's letter to the convener on 23 September and at the Scottish Fiscal Commission letter on the same date. We heard that the forecast error for income tax could be £500 million, which sounded a bit scary, but it is now down to £300 million, which sounds a bit better. Can you say anything about the forecasts and why there is a difference? Part of the problem was that HMRC did not have the figures available to start with, but it looks as though it does now, so would I be right in thinking that future forecasts will be more accurate?

Kate Forbes: In relation to the change to £309 million, both income tax revenues and the block grant adjustments were lower than forecast, and it is the gap between the two that matters. It is worth saying again that forecast error does not reflect the performance of income tax; it reflects the forecast error that was made when the budget was initially set. Although any questions on forecasting are for the SFC, we can see that, as the SFC has identified, one of the biggest challenges relates to historical data. The SFC is now building up historical outturn data for Scotland, so, as it has said, the lack of such data will not be a feature of future forecast errors.

However, the biggest challenge for the Scottish budget, and the reason why there is that uncertainty and volatility, is the fact that we have two different forecasters, which increases the risk of large reconciliations. Reconciliations can be due to differences between the forecast methodologies of the SFC and the Office for Budget Responsibility. That means that a run of negative

reconciliations might be followed by a run of positive reconciliations in the future.

Reconciliations should not be confused with how tax receipts or the economy are performing. They are a normal part of the fiscal framework process for all taxes. The key is being able to manage that risk and volatility, which comes back to the need to have sufficient borrowing powers for forecast error in the fiscal framework. Although "relieved" is perhaps the wrong word, I am relieved that the £309 million is a lot closer to the borrowing limit of £300 million than previously suggested reconciliation figures.

John Mason: The SFC made the point that, when you break them down, its forecast errors are about £83 million, and the BGA is £207 million. Given the size of our budget, £83 million seems quite an accurate figure. Does the cabinet secretary agree that the SFC has been pretty accurate?

Kate Forbes: It is difficult for me to comment on the accuracy or otherwise of forecasters. We have to work within the figures that they provide, and it is not for me to say whether they are accurate or inaccurate. Certainly, a build-up of historical outturn data will make it a lot easier for the SFC to forecast. The margin of error that John Mason mentioned is reasonably good.

John Mason: Another point that the SFC made—

The Convener: I am sorry, but is this your final point?

John Mason: If you want it to be.

The Convener: I was simply seeking clarity, that was all. On you go.

John Mason: I have two more questions, if that is okay?

The Convener: Okay. If we could push on, then.

John Mason: One of the points that the SFC and our adviser made was about the difference in the number of income tax payers; there is a difference of about 33,000 from what had been forecast. One of the suggestions is that that is because a number of people have incorporated and therefore avoided Scottish income tax. Will the cabinet secretary comment on that? Is it her understanding that that is a problem?

Kate Forbes: The tax base is one of the reasons why there can be significant difference in the two forecasts that we have. If you look at the figures underneath the reconciliations that we are working with just now, you will see that receipts grew by £640 million in the year under consideration—between 2017-18 and 2018-19—and that the number of Scottish income tax payers

increased by 0.4 per cent. Scottish receipts grew more quickly than in the rest of the UK—by 5.9 per cent versus 4.2 per cent—which was driven by strong growth in receipts among high-income earners, in particular among higher-rate taxpayers.

Why am I saying all that? One of the challenges is making sure that the forecasts do not disadvantage Scotland on the basis that we have a different tax base. We have a different make-up of taxpayers in that there are differing percentages of taxpayers in the higher and additional-rate bands in each part of the UK. Is that what John Mason was trying to get at with his question?

John Mason: That is helpful. The committee will probably go back to that issue in the future, because I find it interesting.

My final question takes a different tack and is more like what I asked the cabinet secretary about yesterday in relation to the delay in the UK budget. I think that the UK Government feels that, because things are so uncertain, it simply has to delay the budget. What is the cabinet secretary's response to that argument?

Kate Forbes: There is no question but that things are uncertain. We have spent the first half of this committee meeting talking about how fluid the situation is and how challenging it is to budget. I do not in any way dispute the fact that things are challenging just now.

However, by law, I have to set a budget for next year; by law, I have to set income tax rates before the beginning of the financial year; and by law, I have to set a balanced budget, which takes into account the revenue raised from tax as well as how it will be spent. In that context, when the majority of the revenue for that budget comes from the UK Government, suddenly—overnight—the majority of our revenue has been thrown into question and there are still questions about how accurate the figures will be to allow us to set a budget.

That is one aspect, and it is to do with the block grant adjustments and how accurate they will be. However, on the other side of the balance sheet, in terms of tax, we were able to put in place 100 per cent rates relief for retail, hospitality and leisure because the UK Government took a similar approach and it generated consequentials. It is not affordable for us to continue that relief without the UK Government doing the same.

If the UK Government announces an equivalent change only in its own budget, which could be in late March, and I have to go ahead of the UK Government—say, at the beginning of next year—we cannot come to an informed position on tax because we do not know what the UK Government will do. The same goes for LBTT; we have already seen that we had to respond to

changes in the SDLT immediately, because of the impact on the housing market. We have to be very responsive to tax policy by the UK Government, whether I like it or not, and we are dependent on the block grant adjustments that are confirmed only at the time of the UK Government budget.

It goes without saying that our budgets are linked to a considerable extent and I am dealing with the same level of uncertainty as the UK Government is, but with fewer levers to manage that uncertainty.

Alexander Burnett (Aberdeenshire West) (Con): I refer members to my entry in the register of members' interests.

I will start with a question on employment. You must be equally disappointed that fewer people are achieving sustained work under the fair start Scotland scheme than was expected. With a declining tax base, how concerning is that failure and why do you think that the scheme is not working?

Kate Forbes: I take issue with the premise of that question. Fair start Scotland is essential to helping and supporting people into work, never more so than right now, when a rising number of people are unemployed. The cliff edge of furlough coming to a conclusion at the end of October will only exacerbate the situation and the replacement scheme does not incentivise employers to keep people in work, so fair start Scotland has never been more important. However, it cannot be the only thing that we do, which is why we have announced a number of different schemes to support people into work over the past few weeks, whether that is through the retraining scheme or through the job guarantee that I have already mentioned.

In terms of the tax base, I am seriously concerned, when I look beyond the end of October, about how we will continue to keep people in work when the chancellor has deemed it acceptable to determine what is and is not a viable job without understanding that some people who have viable jobs simply cannot do them, either because the business is not there or because they are required by law to shut down.

Alexander Burnett: That was not really my question. I think that we all agree that the scheme is essential and we all agree on how important it is, especially in these circumstances. My question was, given that fewer people are achieving sustained work than expected, why do you think that this particular scheme is not working as intended?

Kate Forbes: I think that the scheme is working as intended. We have extended fair start Scotland contracts for a further two years. We have also added a further £2.35 million for the parental

employability support fund so that there is considerably higher in-year investment to support people into work. I think that fair start Scotland is an important element of the overall employability package that we have put together, so I fundamentally disagree with the underlying premise to your question.

Alexander Burnett: I think that your figures are lower than those that the Scottish Fiscal Commission was expecting. If you are expecting the scheme to work, there is clearly a miscommunication in relation to your expectations and its expectations, but maybe that is a question for the SFC when it appears in front of the committee.

Finally, my other question is on the other element of business, namely property and business rates. Although I totally appreciate your lack of business experience, do you understand why the low percentage error is neither insignificant nor insubstantial?

10:00

Kate Forbes: I can only thank you for sharing your own business experience and enlightening me. When it comes to non-domestic rates, any extension of the reliefs for next year will be dependent on what the UK Government does. We have put in place £972 million for funding that rates relief for the year. Your Government cannot get its act together and provide certainty, although, of course, it can provide certainty on Brexit, because that will always take priority over providing certainty to taxpayers, businesses and communities in this country. Right now, because your Government cannot get its act together and provide clarity on next year's budget, we are left in the position of not knowing whether we can extend that rates relief.

I suggest that, if Alexander Burnett cares about the businesses in his constituency or the businesses that he has, he should start lobbying his own Government to provide that certainty and clarity before we hit the cliff edge. Might I suggest that doing what the chancellor did with furlough, which was to provide clarity a matter of weeks before the scheme comes to an end and a matter of weeks after most businesses had started issuing redundancy notices, is not the way to manage non-domestic rates relief?

The Convener: I am going to move on to Angela. Alexander, we do not need to be rude at this stage. As far as the process goes, we have had a pretty reasonable exchange, so let us just keep it going in that way. Angela Constance has the next questions.

Alexander Burnett: Can I not finish my question?

The Convener: No. I said that I was going to bring Angela in now.

Angela Constance: Thank you, convener. I have a question for our intelligent and insightful Cabinet Secretary for Finance about forecast errors in social security. We know that the forecast errors are small and that they are due to higher eligibility and higher take-up rates. That should not be a surprise to anyone, not least the Scottish Fiscal Commission, as the policy aim on social security has always been to improve the offer and take-up rates. For example, the Scottish Government has been clear that up to 194,000 kids will benefit from the Scottish child payment. In the scheme of things, how problematic are forecast errors in planning demand-led budgets? Is it the case that, in fact, the issues are bigger, broader and more fundamental and relate to the lack of powers available to the Scottish Government or the delay to the UK budget and the impact that that will have on planning tax and spend?

Kate Forbes: It is challenging to manage forecast error in social security, largely because, when it comes to income tax, the impact falls several years later. It is not just social security that generates forecast error. Some forecast error needs to be managed within the financial year, and some can be managed in future budgets. It is challenging, and the focus up to now has been largely on income tax reconciliation, which, as I have said, is £309 million. However, that does not take account of the forecast error from social security, and all of that will need to be managed within the borrowing limit of £300 million. The bottom line is that, unless it falls within that borrowing limit of £300 million, the reconciliation is hard money—money that needs to be taken from other parts of the budget. Most Governments would borrow for a forecast error, because they do not want forecast error to reduce their spending power, which is about supporting communities, supporting the NHS and ensuring that we have welfare support in place.

Therefore, a forecast error reduces the amount of money that we can send back out the door to help the very individuals, households and communities who depend on social security. That is a challenge.

Volatility is not something that we should necessarily wish away. When social security is demand led, there will be volatility; the key is to have borrowing powers or another means of managing volatility across devolved taxes and social security.

Angela Constance: Thank you for that detailed answer, cabinet secretary. My final question is brazenly political. This week is challenge poverty week. What does the autumn budget revision do

to loosen the grip of poverty on people's lives? Do you agree with the Joseph Rowntree Foundation, which says that the UK Government needs to step up and match the Scottish Government's efforts to tackle child poverty?

Kate Forbes: You ask a critically important question, at a time when the risks of poverty are rising because of the challenges that we face and the rise in redundancies. The Scottish Government was already, through its budget, mitigating some of the worst impacts of UK Government welfare changes. The very fact that, at the beginning of the pandemic, the chancellor announced that he would extend support for universal credit, demonstrates that universal credit is not sufficient. My fear is that unless there is a fundamental change at source in welfare support, we will be unable to mitigate all the impacts, at a time when more and more people will depend on universal credit and welfare support. If that support is not there, people will face a very challenging future.

At the moment, we continue to fund mitigation. For example, we are mitigating the bedroom tax and providing the Scottish welfare fund. At the beginning of the pandemic, we increased the support that is available for council tax reduction and welfare support—and I mentioned the £350 million welfare and wellbeing funding. However, as much as those are important interventions, which I support, they are all sticking plasters. Unless there is a consistent and robust safety net for people who find themselves in poverty—through no fault of their own, particularly at the moment—I fear that families the length and breadth of this country will face a very challenging future.

The Convener: I will bring in Dean Lockhart, but I will come back to Alex Rowley after that, because I did not notice that he wanted to ask a supplementary question earlier when John Mason was asking questions.

Dean Lockhart (Mid Scotland and Fife) (Con): John Mason asked about the decline in the number of taxpayers in Scotland. The outturn data shows that the number of taxpayers fell by 4,200, compared with a forecast increase of 29,000, and that the new five-band tax system is expected to raise less revenue than was forecast. Cabinet secretary, what is your view on the declining taxpayer base in Scotland and the decline in the revenues that are generated by the five-band tax system?

Kate Forbes: Let me clarify that Scotland raised £119 million over and above the block grant adjustment, largely thanks to the decision to move to a five-band income tax system. It is important to make that point when we are talking about additional revenue to which we have access; the

key point is that we raised more than the block grant adjustment.

If you look at receipts and the number of Scottish income tax payers, you will see that both increased between 2017-18 and 2018-19—the year under consideration. Income tax receipts grew by £640 million and the number of Scottish income tax payers increased by 0.4 per cent. Those are important measures of how well or otherwise our income tax system is working. Receipts themselves—and, ultimately, that is the revenue that we raise for public services—grew more quickly in Scotland than they did in the rest of the UK. I have already given the figures; receipts grew by 5.9 per cent in Scotland and by 4.2 per cent in the rest of the UK. That is largely due to strong growth in high earners, who are higher-rate taxpayers.

Dean Lockhart: Okay, thank you. I would like to come back to some of those numbers, but that is probably for another time. For the sake of time, I will move on. The Institute for Fiscal Studies has been looking at the significant increase in Covid spending coming from the UK Government and it has recently forecast that the stand-alone fiscal deficit in Scotland will be in the region of 26 to 28 per cent of gross domestic product. As you will know, that is unprecedented and it is double the deficit level for the rest of the UK. Does the cabinet secretary agree with the IFS forecast of Scotland's stand-alone fiscal deficit and, if so, is it something that she considers when making spending decisions and calling for additional funding from the UK Government?

Kate Forbes: I wonder whether Dean Lockhart thinks that £372 billion-worth of deficit, which is what the UK Government is forecast to see over the Covid period, is also unprecedented and that UK Government can afford to operate as an independent country in light of that deficit, because it is unprecedented and a very challenging position. We all accept that the UK Government's public finances will face a challenging outlook.

When it comes to Scotland, Dean Lockhart is comparing two very different things. He is looking at Scotland as part of the status quo—part of the United Kingdom—and saying that it is unsustainable, on which I would agree with him. However, the fact that 70 per cent of our spend, at least in the figures that he is alluding to, the majority of tax and most fiscal levers are reserved suggests that if anything is unsustainable it is Scotland being part of a United Kingdom that has not managed our public finances in the way that we certainly could do as an independent country.

I think that I just said 70 per cent of our spend, but I meant 70 per cent of our revenue raising.

Dean Lockhart: The UK budget deficit is half the stand-alone fiscal deficit in Scotland and the UK Government is able to borrow in the international markets at very low interest rates because of that. My question for the cabinet secretary was whether she considers the level of fiscal deficit in Scotland when calling for additional spending from the UK Government. Is the stand-alone fiscal deficit something that you monitor and consider regularly when you look at the fiscal position in Scotland?

Kate Forbes: That is an illogical question. You are suggesting that right now, when we are part of the United Kingdom as part of the status quo and the majority of our income is reliant on the UK Government. I have no means of accessing significant funding other than from the UK Government and the small amount that comes from devolved taxes. In light of that being the status quo, if anything is unsustainable it is the fact that we are reliant on the UK Government.

When we look at the tax revenue that is raised in Scotland and at fully devolved spend, I am required by law to balance our budget every year. The reason why we have been calling for borrowing powers is that right now we cannot present an unbalanced budget—in other words, we cannot run a deficit of any significance. Dean Lockhart is comparing two very different things. I know that he would fundamentally disagree with Scotland being an independent country, but we can at least agree that in that case we would take very different positions.

Dean Lockhart: I take that to mean that you do not monitor the stand-alone fiscal deficit.

Alex Rowley: I am not sure that I know much about forecasting other than that forecasts are often wrong. It is a bit like saying that with the benefit of hindsight, we should have had a crystal ball.

10:15

The cabinet secretary mentioned that she had enough borrowing powers to be able to progress the forecasts that were wrong from the past couple of years. What progress has been made in the discussions with the UK Government about the extension of borrowing powers—specifically, borrowing powers that would be able to offset the deficit?

Have there been discussions about increasing the Parliament's powers in the area of capital expenditure as we plan to deal with the tsunami of job losses heading our way?

Kate Forbes: There has been no progress on the fiscal flexibilities, of which two are the repurposing of capital and dealing with the

borrowing limits. I would dearly love to see progress, because it would not cost the UK Government a penny and it would enable us to be more flexible with the funding and budget that we have.

In response to the question of forecasting errors, I go back to the point that if we did not have borrowing with an appropriately capped limit, we would reduce our spending power. Going into next year's budget, we need to ensure that every penny is going to the Covid response and economic recovery. If that money is being used to plug a gap that was created a few years ago—not as a virtue of the performance of our income tax, but because of error in the forecasting—it cannot be used for other purposes. Most Governments would not reduce their spending power to deal with forecasting errors; they would ensure that there is borrowing cover to smooth the curve of that error.

I have asked the question about the repurposing of capital. Jackie Baillie raised two examples in which capital can proceed at the pace that we forecast it would in last year's budget. Being able to redeploy that to the areas that are most in need right now would make a big difference.

Alex Rowley: My last question relates to a point that Angela Constance made about poverty. What barriers are stopping the Scottish Government from progressing with the new child payment? I understand that you have said that you will bring it forward to February for under-sixes, but there is a crisis right now. What are the reasons why we cannot bring forward the child payment and start paying it to all parents who have children that are under the age of 16?

Kate Forbes: Although most things that we have been involved with have been delayed because of Covid, the child payment is not one of them. There has been a delay, but only by two months, which is amazing considering the pressure that the Government and other public bodies have been under.

We are proceeding at pace to ensure that the Scottish child payment will be ready to operate in February. It will be open to applications in November. The member will know that there has been some debate and discussion as to whether there could be an alternative scheme to fill that gap and also whether there is a means of extending the age limit for those who could receive the child payment.

In response to the member's first point, local authorities and the Government are stretched at the moment, so the fear is that if we focus on an alternative to fill that gap it would ultimately delay the roll-out of the Scottish child payment.

We are trying to ensure that the Scottish child payment runs to timetable because we know that

the support will be critical, particularly as we come out of Covid. We do not want anything to risk that timetable.

The Convener: No one else has indicated that they want to ask a question, so I thank the cabinet secretary for her evidence today.

Item 2 is formal consideration of the motion for the budget provisions. I invite the minister to move motion S5M-22834.

Motion moved,

That the Finance and Constitution Committee recommends that the Budget (Scotland) Act 2020 Amendment (No. 2) Regulations 2020 [draft] be approved.—[*Kate Forbes*]

Motion agreed to.

The Convener: The committee will publish a report setting out its decisions in the coming days. We previously agreed to take our next item of business in private. Therefore, I close the public part of this meeting.

10:21

Meeting continued in private until 11:23.

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