



OFFICIAL REPORT
AITHISG OIFIGEIL

Finance and Constitution Committee

Wednesday 18 November 2020

Session 5



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FINANCE AND CONSTITUTION COMMITTEE

29th Meeting 2020, Session 5

CONVENER

*Bruce Crawford (Stirling) (SNP)

DEPUTY CONVENER

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

COMMITTEE MEMBERS

*Dr Alasdair Allan (Na h-Eileanan an Iar) (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)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

Virtual Meeting

Scottish Parliament

Finance and Constitution Committee

Wednesday 18 November 2020

[The Convener opened the meeting at 10:00]

Pre-Budget Scrutiny 2021-22

The Convener (Bruce Crawford): Good morning, and welcome to the 29th meeting in 2020 of the Finance and Constitution Committee. We have received apologies from Alex Rowley.

Agenda item 1 is the committee's final session on pre-budget scrutiny, in which we will take evidence from the Cabinet Secretary for Finance, Kate Forbes. Ms Forbes is joined by Scottish Government officials Dougie McLaren and James McLellan. I warmly welcome our witnesses to the meeting and invite the cabinet secretary to make an opening statement, if she wishes to do so.

The Cabinet Secretary for Finance (Kate Forbes): Thank you, convener. I am happy to go straight to questions.

The Convener: That is grand. I will ask the first question. At the beginning of October, we discussed the issue of transparency regarding the Barnett consequentials flowing from the United Kingdom Government policy announcements and the impact on the funding guarantee. You advised that your officials were discussing with HM Treasury how the notification process could be improved, which included the transparency of that process. The Scottish Parliament information centre has provided the committee with a useful paper. Before I come to my specific question, it would be useful to quote one paragraph. With regard to Barnett consequentials, the paper says:

"there have been a number of recent announcements by the UK government in respect of local government funding and holiday food programmes. However, it is impossible to identify what Barnett consequentials result from these specific announcements. Barnett calculations are going on behind the scenes at HM Treasury and are unlikely to see the light of day until the next UK budget",

which is some way off. Can you provide us with an update on progress on discussions with HM Treasury in that regard? What are the potential implications of not knowing whether something is subject to Barnett consequentials by the time that we get to the UK budget?

Kate Forbes: Thank you for that question. It is an issue of great importance, not just to enable the Scottish Government to plan ahead but to enable the committee to carry out scrutiny. Last time that I

was in front of the committee, I said that we were pushing for early reconciliation of the consequentials that had been announced to date, and that remains the case. We have not yet had a reconciliation of the funding that has been guaranteed to us against the announcements that generate that funding.

As always, when I talk about the guarantee, I need to put on record once again that the guarantee is very helpful, in that it allows the Scottish Government to plan ahead, so the initial £800 million from July—followed by the £700 million and the most recent £1 billion—has allowed us to plan ahead and take decisions. However, it does not allow for linking the spending announcements that are made by the UK Government and the consequentials that are generated by them. Therefore, a breakdown of what should cover health or business support is not available to us in the Scottish Government and is therefore not available to Parliament to scrutinise. That reconciliation has been promised to us and I hope that we will get a broad breakdown this autumn. I have been asking for that since I was previously in front of the committee, but it has not been forthcoming.

Part of me can understand—to an extent—why it is difficult for the Treasury to provide that, because we face the same difficulty in funding certain programmes that are demand led. If we think about it from the Treasury's perspective, although it has given us a funding guarantee, say, on the demand-led business support schemes that accompany the strategic framework in Scotland—or the equivalent lockdown measures in England—it is difficult to know at this stage how much money the Treasury will be spending on the recurring grants.

Equally, it is difficult for us to forecast the full amount that will be required for business support in Scotland. I hope that that clarifies—maybe it does not—that we do not yet have a detailed breakdown of the funding that has been provided to us in terms of which UK announcements it relates to. We certainly expect that the funding will be required to cover a number of actions, including public health initiatives and transport support, as well as support for business.

I expect that the latest tranche of money will have to cover all our spending needs between now and 31 March 2021. That will include everything from on-going business support to health needs over the winter to, for example, the need to plan for the distribution of a vaccine.

The Convener: Cabinet secretary, last time you were before the committee, we discussed whether you would consider providing more detail to the committee on how the remaining Barnett consequentials will be allocated. You have given

us a general outline to the spring budget provision, which we will not have the opportunity to consider until late February. You responded by saying that you would give careful thought to what additional information could be provided, with the heavy caveat that it would be a snapshot in time in the middle of a dynamic and fluid situation.

Since then, as you said, the funding guarantee has been increased to £8.2 billion. Could you provide an update on the allocation of the remaining consequentials that we discussed last month and the subsequent additional consequentials? If that cannot be done today, when can it be done?

Kate Forbes: I am still very keen to provide the committee with advance sight of as much information as possible in December, rather than waiting until the spring budget revision. As I said in my letter, it will be a snapshot in time, and if you think about how much has changed since I was previously at the committee, with the additional consequentials and additional demands, you will understand why it is difficult to do anything other than provide a snapshot in time.

Since we discussed the autumn budget revision, there have certainly been further announcements on, for example, local government and transport, and we have obviously had a significant increase in the support for business that is being made available. Alongside that, the health service will have on-going needs. I am still committed to providing as much information as I can in December, perhaps in a letter to the committee, to aid your scrutiny.

By that point, we might also have a broad, high-level reconciliation from the UK Government, but we are being advised that a more detailed reconciliation will probably not be available until January at the earliest. I can try to provide as much information as possible on both those elements in a letter to the committee.

The Convener: Thank you. That is helpful.

My final question is about the £8.2 billion guarantee. If you do not know what Barnett consequentials will come to Scotland from that—I know that you have the guarantee level—is there not a potential danger that we could spend more than we would be entitled to in the circumstances?

Kate Forbes: From the beginning of the pandemic, my major responsibility has been to ensure that, because we are not allowed to overspend our budget by law, there is sufficient funding for all the many critical initiatives, schemes and services that we provide. I need to ensure that the health service has sufficient funding to get through the winter. I also need to ensure that, when it comes to recurring business grants that are difficult to forecast, there is sufficient

headroom to ensure that businesses can continue to get support between now and the end of the year.

I fully understand the many calls that there are on funding at the moment, particularly when it comes to business support. I hear that from my own constituents, never mind in the Parliament. With the most recent tranche of money, I am keen that we look carefully at the further support that we can put in place. However, the business schemes that we have designed are very similar to the UK Government schemes, with a few exceptions; for example, the discretionary amounts that were announced yesterday for local authorities are significantly higher than the equivalent UK schemes.

The danger for me, as for any individual in my shoes, in agreeing to every spending ask now is that, come January, we realise that there are significant additional spending needs and find that we do not have the budget for those. That is why, on that point about the close working relationship with the Treasury, there is an expectation from the Treasury that we will make the funding that has been granted and guaranteed to us last until the end of March.

Few of us know precisely what will happen between now and the end of March—what will be required in distributing vaccine, what will be required of the health service, what additional business support will be required, and which local authorities will be in each level of allocation. That is not to shrug off responsibility for the need to give clarity and information and to look carefully at every request for additional support. Equally, I must take seriously my responsibility to ensure that that funding lasts until the end of the financial year and that we are not caught short in addressing the many needs.

The Convener: I will bring in Murdo Fraser now.

Murdo Fraser (Mid Scotland and Fife) (Con): Thank you, convener. I will pick up on the convener's second point and reinforce his request. When you last came to the committee, at the time of the autumn budget revision, the Barnett consequentials were guaranteed to be £6.5 billion, and about £500 million was unallocated, and we had a discussion about that. Since then, an additional £1.7 billion has been guaranteed. Some spending commitments have been made, such as yesterday's announcements on additional business support, which are helpful. However, it would be useful for all colleagues to have more of a breakdown of how the additional money is being allocated. If you are able to bring that to the committee before February, it would be very welcome and all colleagues would support that.

By all means, comment on that, but I want to ask you about a different issue: the question of taxation. At this stage, I am not expecting you to set out your thinking on what you might do on devolved taxes, but I am interested to get a flavour of what the direction of travel might be. We have heard suggestions from the chancellor that, although he accepts that, in the long run, taxes might have to rise to repay borrowing and rebalance budgets, now is not the time to do that. That is traditional Keynesian economics at a time of economic downturn. What is your thinking, looking forward to the next financial year? Are you, like the chancellor, a follower of Keynes?

Kate Forbes: The first point is heard loud and clear, and I will endeavour, as I said, to set that out. I do not think that a full winter budget revision is necessary, but I will provide as much clarity as possible in a letter.

I will make a few comments on tax. First, I am very persuaded by pretty much every commentator and every think tank, from the International Monetary Fund on, that now is not the time for fiscal consolidation. Now is not the time to increase taxation across the board or, indeed, to cut spending. Those two must go hand in hand when it comes to managing our fiscal position. Most of the suite of powers required to manage the financial situation after the pandemic are reserved. However, in our paper, "Coronavirus (COVID-19): UK fiscal path—a new approach", published in June, we set out what our intentions would be, if we were to have the power, and what we hope the chancellor will do. That includes rejecting austerity. That is what has informed my thinking on tax.

The other point that I would make on that—and the Finance and Constitution Committee will know about this better than anyone—is how critical the performance of Scottish taxation is, compared with the performance in the rest of the UK. One of the challenges of setting a budget in advance of the UK Government's budget is having little clarity on what it might do on tax. We know that it is unavoidable that our income tax rates interact with what the UK Government does on national insurance contributions, for example, and with what it might do on either additional allowances or tweaking incentives.

Therefore, we will have to bear two things in mind. One is that now is not the time for fiscal consolidation; it is a time when individuals and businesses need support. Secondly, we need to understand that, in setting our tax before the UK Government sets its tax, we have to have an eye on what it might do. Obviously, having as much intel as I can get in advance—and it is unlikely that I will get much, because it is tax policy—will be essential.

10:15

Perhaps the area of greatest debate right now is non-domestic rates and whether we might see an extension of the 100 per cent relief. Considering that it will cost just short of £1 billion this year, an extension is prohibitively expensive for us if there is not an equivalent UK Government scheme that generates consequential. I have been very clear and vocal that I am keen to provide additional reliefs, but that is dependent on what the UK Government might do, purely in terms of our ability to fund it.

Murdo Fraser: Thank you for that very helpful response. What you said at the end about business rates was very interesting. There is clearly a huge issue at the moment with retail. You only have to walk down any high street in the country to see a number of businesses that have closed over the past few months and are sadly unlikely to reopen any time soon.

There is the short-term issue of additional relief, and there is a longer-term issue. The Barclay review made some administrative improvements to business rates. I know that the UK Treasury was looking at a more fundamental reform of business rates. Has the Scottish Government had any engagement in that? Do you have an interest in looking at that policy area and whether the model of business rates, particularly as it impacts on high street retail, is still appropriate for a changing economy that is moving towards much more in the way of digital sales?

Kate Forbes: We are not necessarily engaged or involved with the UK Government review, but a lot of the stakeholders who fed into the Barclay review are feeding into the UK Government's review, and we are often sent their submissions or included in them. We have a strong interest in it, but not practical involvement.

However, on that point, what we are seeing in the pandemic is structural challenges being exacerbated. How we can support town centres has been a matter of discussion and debate in every budget process. On the one hand, there are sticking plasters—which are very helpful and I do not knock them—such as efforts to provide support in the form of town centre funds. Another example is reductions in rates, whether that is through the small business bonus or otherwise, and there are a number of other reliefs and supports.

However, taking a step back, we see that there is a structural problem that has been exacerbated by the pandemic. When it comes to digital, I think that people will find it harder to go back to their old behaviours of shopping in person, and they will continue to rely more on digital. There is a need for a fundamental review of what we are taxing

and why. For example, it is no longer fair that a large retail outlet is paying significant rates, based on its significant property size, while a business that is using a cupboard somewhere and is operating a very successful digital business is not. There is not equity there.

My last point is that transport plays an important role in those structural changes. One point that is interesting to me, and which goes to our budget agreement last year, is how we support transport to take people into town centres. Initiatives such as free transport for under-19s to support people's movement also help town centres.

I raise that to show that it is not just a tax problem. Tax is part of the problem, but there is a far bigger structural problem in how we support businesses in our town centres. We can do town centre funds, which are helpful at a given point in time, but a fundamental rethink is needed. I do not think that Government necessarily has a monopoly on what that would involve, because it will be much bigger than just tax or allocation of funding.

Murdo Fraser: Thank you.

Patrick Harvie (Glasgow) (Green): Good morning, cabinet secretary. You noted that the UK budget will not be available before the Scottish budget interaction between the tax policies. If the UK Government does not give you specific information about its tax intentions, you will have to make an assumption. Will you be working on the assumption that there will be no change to UK tax policy?

Kate Forbes: We will be working on a variety of different assumptions. Some think that the spending review is a budget, but it is not a budget; it is important to keep reiterating that point. It will provide us with very partial and provisional information.

The biggest difference is that we will not know about tax policy. Between next Wednesday—25 November—when the spending review is published, and our budget announcement, we have asked that UK Government officials work as closely as possible with us to ensure that our planning assumptions are as accurate as possible. However, we will work with a number of different scenarios. It is difficult for me to say what the most likely scenarios are until we have seen the spending review next week and have done some of the work in advance.

That is a lengthy way of saying that the assumption you mention will be one of many scenarios that we will work with.

Patrick Harvie: In deciding on Scottish tax policy and working with the Scottish Fiscal Commission based on its assessments and your own judgment about what the available financial

envelope will be, there has to be a calculation based on an assumption about an interaction with UK tax policy. Will that calculation be based on the assumption of existing UK tax policy or something else?

Kate Forbes: Current UK tax policy is one of the scenarios that we will model. There are a whole range of different scenarios now. I do not know whether I understood your question correctly. That is one scenario, but it is based on what kind of intelligence we might be able to gather, in advance of our own budget, on what the UK Government might do. That will be informed by what its officials might hint at or suggest. It might be informed by what we read in press trails. Ultimately, we will need to take a best-case scenario and use our judgment.

Patrick Harvie: You described the situation as it is now. When you propose a tax rate resolution to the Scottish Parliament, you will have to base your calculations about how much revenue there is on an assumption—one assumption—about UK tax policy. However, you are clearly not yet ready to state what that assumption will be.

In your first response to Murdo Fraser about tax policy, you said that you took what was almost a flat-tax approach in that the only question in tax policy is how much tax to raise. You said that there should not be tax rises as part of fiscal consolidation. However, tax policy is not only about how much is raised overall, it is also about—[Inaudible.]—and what the economic—[Inaudible.]—said—[Inaudible.]

The Convener: Patrick, we are having a bit of a problem with hearing you. You were breaking up a fair bit there. I do not know whether it is a microphone issue. The sound is very tinny and it is cutting in and out. Let us see where we get to. I know that Kate Forbes missed some of that, but have another go.

Patrick Harvie: Okay. I hope that you can hear me. If not, I will ask separately. I am interested in the cabinet secretary's response to the evidence that we heard last week about human rights principles in fiscal policy. Tax policy is not only about how much tax is raised overall, it is about from whom. Is it part of the Scottish Government's intention to consider which individuals and businesses have done well during the pandemic and who has been hit hardest economically and to use tax policy to try to redistribute wealth to reduce inequalities that have been exacerbated by the pandemic?

Kate Forbes: The short answer is yes. My follow-up point is in relation to the timetable of when that could happen. I have two reasons for making that point; first, there is a lot of uncertainty between now and April next year and trying to

ensure that our tax regime and financial support regimes are as stable as possible is important at a time of great turmoil. Secondly, having looked at the narrow tax powers that we have, which Patrick Harvie will be as aware of as I am, how would we do that? We have tried to do that to an extent with income tax by having a more progressive system and we have tried to do that in the past with council tax in relation to increasing the multipliers and trying to make a regressive tax ever so slightly more progressive.

In relation to dealing with the particular issue of identifying those who have done well, as Patrick Harvie put it, and understanding how they could contribute more, that is more likely to require a new tax or a fundamental shake-up of the taxes that we have, such as non-domestic rates on the business side or, in relation to income tax, having access to dividends and savings, not only the narrow non-savings, non-dividend taxes that we have.

So, the short answer is yes, but my two caveats—I am being as candid as possible—are that looking ahead and having as much clarity and certainty as possible at a time of great turmoil is important, but to do that well would require a fundamental shake-up of current taxes or new taxes. I have seen the Equalities and Human Rights Committee's report that Patrick Harvie mentions, and there has been a lot of discussion about that in Government in relation to how some of the principles there shape all our policies, not only fiscal policy, going into this budget.

Patrick Harvie: My final question is to clarify that answer. You have placed emphasis on redistribution, progressiveness and stability. It sounds as though for the 2021-22 financial year, you intend to prioritise stability; is that right?

Kate Forbes: In short, it is much harder to see a fundamental shake-up of tax systems between now and the beginning of the next financial year at a time of great turmoil, so yes, stability will be important.

John Mason (Glasgow Shettleston) (SNP): I will follow up Patrick Harvie's questions. There was an interesting article in *The Herald* yesterday about windfall taxes, which have been used in the past by Westminster in relation to the oil and gas sector. Clearly, some businesses, especially supermarkets and online businesses, have been doing well, so in one sense they could afford to pay extra tax now. Would that have to be a Westminster decision, given that it controls corporation tax and so on?

Kate Forbes: I think that George Adam asked me a question at a previous committee meeting about supporting a windfall tax and at that point I said that I supported considering new ways of

generating income, particularly in light of the fact that some have done extremely well during the pandemic and others have struggled enormously. Corporation tax is reserved, so that would require the UK Government to do something. It is also doing a review of capital gains tax now. I would be supportive of ensuring that those who have done better pay more next year, where there are tax powers to do so.

10:30

In terms of our other tax powers, our main business tax—it is not really a business tax—is non-domestic rates. It is a blunt tax, and it is difficult to provide any nuance within it, because it is based not on turnover but on property. That is why there is often a mismatch between property sizes and turnover, yet it is turnover and income that are measured when it comes to businesses doing well.

We have the powers to create new taxes. We have not done that before and we would require UK Government Treasury approval. The experience of the Welsh Government was that it got nowhere with the process of creating a new national tax. We certainly could not do it between now and the new financial year. Therefore, non-domestic rates are really the only tax lever that we have when it comes to increased business taxation.

John Mason: That is helpful. I take the point that NDR is a pretty blunt tool for business taxation. It is the same situation when taxing individuals, in that some individuals are struggling and others are doing quite well. You and I are on fixed salaries and we are, perhaps, saving money, if we are not travelling so much and if we are not going out for meals or to the cinema. Is it possible to target changes to income tax to hit the people who are doing well and support those who are doing badly?

Kate Forbes: That is worthy of consideration, but it would have to lead to increased revenues—that is key. I take the point that tax is not just about revenue; in some cases, it is about behaviour change. When it comes to income tax, I must be assured that there is sufficient revenue to fund our public services. Whenever we consider changes to income tax rates and bands, we must always try to understand not only the potential behavioural changes but whether the changes would generate additional revenue. We will go through that process again this year in advance of settling on our income tax policy.

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

My questions are on non-domestic rates. In previous committee meetings, we have covered the forecast error in business rates and how that relatively small error is masking the considerably more serious issue of properties being destroyed in the absence of a functioning market.

From conversations that I have had this week with the property sector in the north-east, I know that, in addition to the destruction of buildings, tenants are predicting that listed building relief will be the next casualty, and they are already taking pre-emptive steps by returning buildings, which, most often, have public authority owners. It is compounding a problem in the sector, which will not be resolved by changing the tone date—a decision on which is being taken at the Local Government and Communities Committee as we speak.

Given that the Scottish Fiscal Commission accepts that its NDR data collection is not as complete as it would like it to be, what assurances can you give that you are fully aware of what is going on in the sector? More simply, what other data are you able to get to give yourself a true picture of what is happening on the ground?

Kate Forbes: You talked about forecast error. Are you alluding largely to empty property relief? You also talked about destroying buildings—are you talking about the choice to destroy buildings rather than to continue to pay non-domestic rates, because of empty property relief rules?

Alexander Burnett: Yes. As I mentioned, the Scottish Fiscal Commission said last week that the data that it is getting on what is happening is not as complete as the data that surveyors on the ground are able to collectively provide for different parts of Scotland. The data does not seem to be coming through. The pipeline of buildings, which are now empty, whether they are waiting for planning permission to be destroyed or for other reasons, is coming through. However, it seems that that is not being recorded, which is a much bigger problem for building up revenue for councils and the Government.

Kate Forbes: It sounds as though you might have specific examples. If you do, I would be interested in receiving information about them.

The data on non-domestic rates is pretty robust. The tax is similar to council tax, in that the data is far more complete than it is for other taxes, because the tax is based on property, and it is very difficult to move property. I am sure that there are always ways of ensuring that the data is more accurate but, in most local authorities, the assessors have a very close relationship—although not always a positive or constructive one—with non-domestic ratepayers. The tax has

very low levels of avoidance and it is very difficult not to pay it, because it is based on property.

If the member wants to write to me with the specific examples that he is referring to, whether they are anecdotal or otherwise, I will look into that. It sounds to me as though the issue is part of the debate on whether empty property relief incentivises people to put buildings back into use or to choose to destroy them rather than continue to pay rates on them. At a time of economic challenge, I can understand the argument for that, in that there is not a buoyant market to take over those properties. Certainly, in advance of next year's budget, it will be important to look at some of those reliefs and ensure that the package of reliefs that we have in place reflects the economic challenges that ratepayers face.

Alexander Burnett: Thank you—I will certainly take you up on your offer.

Angela Constance (Almond Valley) (SNP): Good morning, cabinet secretary. Can you hear me all right?

Kate Forbes: Yes.

Angela Constance: Cool.

You have touched on this issue a few times already, but I want you to crystallise the implications and limitations of the Scottish Government having to set a budget proper prior to the UK budget being set. Are there particular aspects that cannot be done along with the budget process? Once the budget is set, how much certainty will we have going forward?

Kate Forbes: Angela Constance is right to again make clear that the spending review is not a budget. As I said, it will provide partial information on our budget envelope, but it will not deliver the information that is required on UK tax plans, which will be provided only at the UK budget. Also, the spending review may include only patchy information on Covid spending plans—that information could well be delayed into the new year. That would be in line with the way in which the chancellor has provided his most recent economic updates, in which he announces new and additional funding, particularly for business.

We are trying to work on a budget timetable that recognises that there is a whole host of unpredictable and uncertain events between now and our budget and then the UK Government budget. Obviously, compared with the situation last year, the situation that we now face is compounded by the financial challenges of Brexit as well as on-going Covid-related challenges. Given all that, my view is that we need as much advance information as possible from the UK Government on its intentions, although that is unlikely to extend to tax.

Ultimately, the situation that we are in again, for a second year, underlines the need for us to have full financial powers to ensure that we are not affected by such UK budgetary decisions. The debate about budget timetables is not really about two Governments coming to a conclusion—or failing to do so—on whether we can proceed with a budget. Ultimately, it is about every taxpayer getting clarity on the tax rates. It is about every citizen who depends on the health service and about local government having the clarity that it needs. It is citizens, businesses and local government that bear the brunt when we are unable to give clarity, and we need clarity in the first place in order to provide it.

We will do as much as we can, but the situation once again emphasises the point that I have been making since the beginning of the pandemic, which is that, in these extraordinary times, we need extraordinary powers to be able to take decisions, rather than waiting for the UK Government to take them for us.

Angela Constance: Thank you—that has helped to set the scene. To be specific, however, will there therefore be decisions that you would like to take in February that you will not be able to take?

You mentioned that you have been pushing HM Treasury for greater flexibilities. We have touched on borrowing powers, although we have not yet mentioned more flexibility on transferring capital to resource. Could you say some more about the purpose of additional flexibilities? What response, if any, have you had from the Treasury?

Kate Forbes: I will illustrate that using three different examples. One of them has already been mentioned twice this morning, which illustrates how dominant it is in all my current discussions with businesses: the extension of the 100 per cent relief into next year. That costs just under £1 billion.

Last financial year, the UK Government set its reliefs pre-Covid, in January. Then, it basically ripped that up—for understandable reasons—just before the beginning of this financial year, implementing the 100 per cent reliefs. We do not have budget cover to fund £1 billion-worth of reliefs next year. That just does not exist, because we do not have the resource or the borrowing powers to do that.

The UK Government does not set its non-domestic rates reliefs until mid to late March, and we are running out of room to do something equivalent here in Scotland. We are not providing the certainty that I want to provide businesses by setting reliefs up front. Rather than assessing the Scottish economy, understanding businesses and then coming to a conclusion on that policy, as any

normal Government would do when setting its budget, we are looking to the UK Government and trying to guess what it might do and what consequentials might flow. That is one example.

The second example concerns every line of spending. Local government and the health service are two of the biggest. By law, I am not allowed to overspend my budget, so I need to use the best available evidence and to understand what our spending envelope is, and then set policy within that spending envelope—because we do not have the borrowing powers that would allow us to overspend.

We will have provisional block grant adjustments in the spending review, but it is unlikely that we will have much, if any, UK Government commitment. We will certainly have very little clarity on consequentials. I therefore have to take a very prudent approach to setting our budget, and that is very difficult when we are wanting to make every penny go as far as possible to fund local government and the health service. Those are the two main things there.

The last example is Covid spend. What if there is no Covid-related spending in the spending review? We know that the impact on the health service will last beyond this financial year, and we will probably be in the midst of a vaccine roll-out programme—all those elements require funding—and if there is no clarity on additional Covid funding between this financial year and next, we will have to use part of our baseline funding to cover Covid funding, which means taking it away from elsewhere.

All of that illustrates the complexity in what is already a very challenging circumstance. The issue is not whether that makes my job easier or harder—that is irrelevant. It is all about whether taxpayers have certainty at a time of great challenge; it is about whether businesses have certainty; and it is about whether the health service can continue to do the work that it is doing. That is how critical it is, for all those who depend on how the Government is spending and raising its money, for us to get the budget right.

Jackie Baillie (Dumbarton) (Lab): Good morning, cabinet secretary. I will start on the allocation of the remaining Covid consequentials. There is a sum of something like £2.2 billion that is not yet reported. How much do you consider it prudent to hold in reserve?

10:45

Kate Forbes: That is a very good question, for two reasons. As I have said, there are huge demands on funding right now. Since we last talked, there have been public announcements on local government, transport and business support.

First, at some point, we will—I hope—get to a position of economic recovery. At that point, significant Scottish Government investment will be required in that recovery and in building up our other public services. If the £1.7 billion—to which I think Jackie Baillie was alluding—is required to last from now until March, we need to ensure that we have funding available to invest in and support the recovery.

The second element is the health programmes that we will require to get us back up and running. Although there is still uncertainty about a vaccine, the guaranteed consequentials that have come to us are expected to last from now until the end of March, when I envisage that we will be in the throes of a vaccine roll-out programme that will require funding. As we do with all the consequentials that are provided, we are announcing funding here and now for current pressures, but we also need to forecast what we think will be pressures in the months to come. I have just mentioned two such pressures that will require funding: economic recovery and the roll-out of a vaccine programme.

Jackie Baillie: I absolutely accept that. However, on the basis of your forecasting, how much do you intend to hold back, and how much is therefore available to spend? Perhaps I could press you on the remaining money.

Kate Forbes: I cannot—and would not—give you a figure in advance of the additional information that I have pledged to give the Finance and Constitution Committee in December, followed by the spring budget revision in February.

To date, there have been announcements on business support. Right now, I cannot give you a figure for what will be needed on business support for the provision of rolling grants, because every month a new number of businesses are eligible for that funding. We have held back several hundred million pounds to ensure that there is cover for that. We are also ensuring that the health service is working with us to understand what its forward-looking pressures are.

When it comes to the budget, it is not about holding things back but about budgeting for the forecast pressures. Every penny will be allocated on Covid spend, but it is not the case that any money will be sitting aside unused—it will be allocated to an anticipated need.

Jackie Baillie: Hospitality and tourism businesses in my constituency and across Scotland—as I am sure that the cabinet secretary will be aware, because she shares my concerns in this regard—are telling me that the amount of support is inadequate and that the eligibility criteria for many of the grant funds are just too tight. For those in a tier 4 lockdown area, the position is

more acute. I therefore support the request from the convener and the deputy convener for a summary of the business support programmes that are already in place, but I also ask you to look again at how business support can be targeted much more effectively than is currently the case.

I will pose another question to you, cabinet secretary. A business recovery package for 2021-22 will be critically important. As a consequence, are you likely to increase the proportion of the budget that goes on the economy and business recovery? If so, by how much?

Kate Forbes: You will have seen that, in this year alone, we have increased significantly the spend on the economy. Our budget will be based on the same three themes that are in the programme for government, one of which is jobs and the economy.

The challenge for me, between now and the publication of the budget, is to ensure that all the decisions that we make on our spend are delivering against those three objectives. As a reminder, the themes are promoting health and wellbeing and addressing on-going health challenges; dealing with increased inequalities as a result of the pandemic; and creating and protecting jobs and boosting the economy. Those three themes will be the building blocks for the budget.

Jackie Baillie: I have a couple of other questions. People have discussed the taxation position with you already, but I just have a small question about that. Our projections tend to overestimate our income tax performance. Why is our tax base so weak and what proposals do you have to address that?

Kate Forbes: First, I do not think that our tax base is as weak as you have suggested it is. From the outturn data for 2018-19, you can see that not only did our receipts grow but the number of Scottish taxpayers increased. Certainly, receipts grew more quickly here than they did in the rest of the UK, which meant that we could raise £119 million more, over and above the block grant adjustment.

That said, there are two ways of increasing our tax base. The first is through population attraction. Again, you will know that we have a strong agenda on attracting people to live, work and invest in Scotland. The greatest threat to that is the immigration bill that has just been introduced and which was recently praised by Priti Patel, which will jeopardise Scottish recovery. Certainly I do not think that it is supported by many in the Scottish Parliament, not least after hearing the new Scottish Tory leader talk about the possible need for a differentiated immigration policy for Scotland.

I think that we need such a policy. That is one way of increasing our tax base.

The second way is by boosting earnings and ensuring that those who are working in Scotland are getting a fair wage for the work that they do. In many cases, the public sector pay policy will set the standard for what we want to see across the economy and the Scottish public sector pay policy will be published alongside our budget, which I certainly hope will ensure that those who are the lowest paid are the most supported.

Jackie Baillie: You have pre-empted my next question, cabinet secretary, so let me just ask you when your negotiations on the pay policy are starting.

Kate Forbes: I have already had some meetings. Our plan is to publish the policy alongside the budget. I am mindful of the number of wider workforce pay deals that are set to end on 31 March 2021 and the related negotiation timetable. We are working collaboratively just now with employers and trade unions in respect of developing the public sector pay policy and managing the wider processes and implications.

I have already had some meetings with trade unions. I do not have my diary in front of me, but there are also some planned meetings already in the diary over the coming weeks.

Jackie Baillie: So would you be hoping to come to a conclusion well before 31 March?

Kate Forbes: As I said, our plan is to publish the pay policy alongside the Scottish budget. I know that some of my colleagues are engaged with their own respective trade unions. I am meeting the Scottish Trades Union Congress on 1 December. Clearly, that all needs to be balanced but I know that we will all be keen on getting settlements in place.

Jackie Baillie: Thank you, cabinet secretary.

Dean Lockhart (Mid Scotland and Fife) (Con): I would like to follow up on the economic response to Covid. The additional restrictions that were announced yesterday will obviously have a severe impact on businesses that have already been struggling to survive and they will need urgent support in the months ahead. Looking at the Scottish Government budget, I believe that the Scottish Government has allocated £500 million to the Scottish National Investment Bank and that the annual budgets of enterprise agencies are around £300 million. That potentially makes available around £800 million for enterprise spend, which could be directed towards helping businesses survive the pandemic.

Can the cabinet secretary confirm that she will ask the enterprise agencies and the SNIB to use their budgets primarily to help existing viable

businesses to survive Covid, as opposed to those budgets being spent on more speculative projects, as has been the case in the past?

Kate Forbes: I am surprised by Dean Lockhart's position. It is perfectly legitimate to talk about survival and ensuring that there is adequate support right now to help businesses to survive, but there is also a responsibility on us all to look ahead at where jobs will be created. On the one hand, the issue is about protecting jobs, but on the other, at a time when unemployment is edging upwards and the claimant count is high, it is important to look at the businesses that will create the jobs of the future.

On the substance of Dean Lockhart's argument, I agree absolutely. Right now, Scottish Enterprise, Highlands and Islands Enterprise and South of Scotland Enterprise have a very important objective, which is to support all the businesses in their areas, as far as they can, with capital or resource to survive. We also know that those agencies have pipelines of growth businesses that are keen to scale up. It is imperative that we provide support to businesses that have those aspirations.

When it comes to providing support to businesses, we are working with local authorities to ensure that small—not huge—grants are available. Yesterday's announcement of additional discretionary support for local authorities will allow them to adapt support in their areas for businesses that either have not qualified for grants to date or for which grants have not been sufficient.

We have to protect current businesses and ensure that they have as much support as possible—to that end, furlough is very helpful—but, equally, we all have a responsibility to look ahead and ensure that we are not just protecting jobs but supporting businesses that will create the jobs of the future.

Dean Lockhart: I fully appreciate the need to plan for the long term, but if we do not save thousands of viable businesses now, the danger is that the economy will not have a strong enough base on which to plan for the future and will not have a strong enough platform for long-term growth and the creation of new jobs.

I am glad to hear that you have been encouraging the enterprise agencies and the SNIB to help businesses survive. Do you have a sense of what percentage of their budgets will be allocated to the pandemic response and what percentage will, generally speaking, be directed towards other longer-term and future projects?

Kate Forbes: We do not operate on the basis of those kinds of silos, and I do not think that we should do so. How do we distinguish between a

business that is just surviving and a business that has growth aspirations? Often, they are the same thing.

All the enterprise agencies are firmly focused on getting the country and the economy through the pandemic. In that sense, we could say that 100 per cent of their budgets will be focused on supporting the economy through an enormously challenging time. For some businesses, they will be providing a little bit of additional support to get through. Others that have already been in the pipeline with growth aspirations will need significantly more support.

It is hard to make a binary distinction, because all businesses have been impacted to an extent by the pandemic. The enterprise agencies have been tasked with the objective of steering the business community in their areas through the pandemic.

If we look back on the support for business that has already been announced, largely due to the additional consequential that have come here, we see that the initial £2.3 billion, which was for rates relief and grants, has been topped up by an additional £900 million to support recovery. The £230 million for recovery capital was there to boost the green recovery, speed up digitalisation and support jobs. It is impossible to draw a line between what has been pandemic related and what has not been pandemic related. All that funding is going towards steering the economy through the pandemic and supporting businesses, all of which have been impacted.

Dean Lockhart: Earlier this year, the chairman of the Scottish National Investment Bank said that he was planning for the bank to be operational by December. Is it still the case that the bank will be operational by then?

Kate Forbes: That is obviously within Fiona Hyslop's brief, but plans are proceeding at pace and, as far as I know, they are still on track.

11:00

Dr Alasdair Allan (Na h-Eileanan an Iar) (SNP): At the beginning of the meeting, the convener mentioned the lack of information that the Scottish Government has had about consequential and the UK budget. I am interested to hear the cabinet secretary's view of the impact that that lack of information has on our ability to plan around Covid specifically.

For instance, I understand that the Scottish Government has sought to compensate local authorities for loss of rates, but that 95 per cent of those funds are dependent on the very Barnett consequential on which the cabinet secretary has said that there are uncertainties. Does that point

present challenges for the Scottish Government in its work with local authorities on the matter?

Kate Forbes: You are right that there are challenges when the UK Government makes announcements that generate consequential but there is a lack of clarity on how much has been generated. For example, we have worked closely with the Convention of Scottish Local Authorities to design the local authorities lost income scheme, but there still is no clarity on how much funding has come specifically for local authorities.

Those announcements allow us to plan ahead, although we all know the debates that happen in Parliament on the subject, which end up with comments such as, "The UK Government generated X for this, so you must pass on every penny of it to such and such." On one hand, we are called to be flexible and increase business support and, on the other hand, we are asked to ensure that we spend every consequential on the reason why it was generated.

That pressure comes to bear on business grants. I hear loud and clear the continued demand for additional spend on business support, and I make the point again that our business support schemes are largely aligned with the UK Government's, except for when they are more generous. For example, we have additional discretionary spend for local authorities and additional one-off schemes such as the pivotal enterprise resilience fund. However, we try to stay closely aligned with UK Government funding, because the risk is that, if there is no funding to cover a shortfall, the UK Government will say that we were more generous and did not use our money as wisely as we should have.

The tensions arise from not having the reconciliation of what has generated the funding on which those guaranteed figures—£800 million, £700 million or £1 billion—are spent. A high-level version of the breakdown was promised to us a number of weeks ago and I hope to have it at the end of the month, but we do not expect anything more detailed until the beginning of next year.

Dr Allan: You anticipated my next question, which is on the way that political pressure is sometimes applied for every consequential to be spent in a similar area of Scottish Government activity. Given the differing needs of Scotland and, particularly, the requirements that the Covid situation urgently places on the Scottish Government, will that pressure sometimes have to be resisted in the future and sometimes explained to the UK Government as well?

Kate Forbes: Yes. It is right and fitting that we tailor our response to the particular challenges in Scotland, whether that be a move into additional lockdown measures at a different point in time, a

disproportionate effect on certain parts of our economy or the different make-up of our local government and health services. All those challenges require us to tailor our response, and the Scottish Government takes that responsibility seriously.

We need an element of maturity in our debate when it comes to that issue. Businesses rightly say—it has been said by committee members and I hear it from my constituents as well—that the funding that has been provided does not replace all their lost income. I understand that the impact on business has been devastating, whether for businesses now in level 4 lockdown or those in level 1 that depend on trade from level 3 and 4 areas.

I want to ensure that every penny that we have at our disposal goes on business support, and, when we can, we are trying to be more generous than the equivalent from the UK Government. However, my pushback on the political debate is that one cannot claim that every penny should be spent precisely how it has been spent in England and then say that we also have to be more generous in every respect. That is a contradictory position.

Dr Allan: You touched on the final issue that I want to raise when you mentioned planning for a vaccine. I appreciate that I am asking about an uncertainty upon an uncertainty and that it is a classic example of spend to save, but how are you beginning to make plans about where that fits into the budget?

Kate Forbes: A huge amount and wide range of planning and guidance work is being conducted to assess the costs of providing the vaccination programme, which includes work on prioritisation, workforces, vaccine availability, timetables and timings for delivery, deployment plans, contracts—for example, working with general practitioners—and ensuring maximum safety in its deployment. I am sure that committee members can list a host of other things. That work on the cost implications is being finalised and shared with health boards, but there are still a number of uncertainties. Discussions with health boards are continuing this week, and the planning assumption is that cost returns will be provided in December on all that.

The availability of additional funding through the UK Government consequentials to meet workforce, administration, deployment and other costs is not yet certain, so we have to plan on the basis that the funding provided to date will cover all the costs that I have listed.

Tom Arthur (Renfrewshire South) (SNP): We are just over six weeks from the end of the transition period and, although there is speculation that a deal might be imminent, we all agree that, if

not a no deal, it will be a very bad deal and a very hard Brexit. Has there been any clarity from the Treasury about what funding will be made available to mitigate the impacts of a hard Brexit, at least in the first few months of next year?

Kate Forbes: There are two elements to that question: there is funding to mitigate impact and funding to replace lost income. Both of those are critical because, even if we do not have clarity on either, both have to be funded and the funding will come from our baseline. Inevitably, in a fixed budget, that means moving money from one place to another.

As Tom Arthur knows, we have been clear and consistent on our position that we expect the replacement of European Union funds from the end of December to ensure that there is no detriment to Scotland's public finances and we expect the UK Government to fully respect the devolution settlement in any future arrangements. The decisions on EU funding have consequences for our budget, and the end of the transition period signals the end of funding allocations for certain EU programmes, with no agreed replacements from the UK Government currently in place.

We already know that the UK's negotiating mandate seeks participation in only a limited number of programmes, which we have said is unacceptable for Scotland. We want to ensure that Scotland can participate in as many EU programmes as possible because, in our constituencies, we all have businesses, individuals and community groups that rely on those EU funds. From 1 January 2021, no new funding will be available to various programmes, which will lead to disruptions in project delivery across Scotland. Similarly, our participation in key EU programmes might end, as the outcome of the UK-EU negotiations continues to be uncertain. That is an answer to the second element.

On the first element about funding that is available to mitigate the impact, over the past three or almost four years, we have received £194.8 million in EU exit preparation consequentials, which has been spent on a host of things, including staff who are working on activities such as legislative preparations, and supporting stakeholders, whether those are businesses, cultural bodies, higher education institutes, local government or the third sector. We will have to ensure that funding is available, over the next three months, in particular, to deal with any fallout. Currently, that is very unpredictable.

Tom Arthur: The uncertainty around what will come after EU funding ends has been exacerbated by the United Kingdom Internal Market Bill, which contains provisions that will allow UK secretaries of state to ride roughshod over the devolution settlement and decide at their

own whim what funding will go to projects in Scotland. Have you had any indication from UK ministers or officials of how ministers intend to deploy those powers, if the bill passes with those provisions?

Kate Forbes: No is the short answer, although that came up again in our most recent quadrilateral meeting with the Welsh, Northern Irish and UK Government ministers. I had hoped to have another quadrilateral, specifically on EU funding and Brexit, in advance of the UK Government spending review next Wednesday; it is unfortunate that that will not be happening.

The Internal Market Bill rides roughshod over the devolution settlement; more than that, it allows the UK Government to fund directly in devolved areas. One question that was asked but not answered at that meeting—incidentally, it was not me who asked it—was whether the money that the UK Government invests will be additional to the funding settlement that the Scottish Government gets or will be netted off from Scottish Government funding. For example, if the UK Government plans to invest directly in capital projects in Scotland, will that money be over and above the capital settlement that the Scottish Government gets or will it be carved off that capital settlement, with the UK Government setting its own priorities about what is and is not funded?

If there is no additionality, not only is the bill riding roughshod over devolution—a fact that is accepted by the Northern Irish and Welsh Governments as well as by us and indeed by many commentators and independent thinkers—but it is putting our funding at risk. If we do not have clarity that funding will continue to come to the Scottish Government, we cannot make long-term plans for capital or revenue.

Tom Arthur: My next question follows on from your exchanges with Murdo Fraser and John Mason. We have understood for some time that the fiscal framework is a creation of the pre-Brexit era and will have to be reviewed in light of Brexit. How will the experience of the pandemic and the consequential acceleration of existing trends, which you mentioned, factor into discussions about the review of the fiscal framework? For example, powers that might not have been regarded as appropriate 12 months ago might now be deemed to be essential as we look forward to the recovery.

Kate Forbes: The review of the fiscal framework is critical. I remain very disappointed, as do many others, that there was no agreement provisionally and temporarily to give us additional powers during the pandemic. Such an approach would not have undermined a future review of the fiscal framework and would not have cost the UK

Government a penny, but it would have helped with our forward planning.

Looking ahead to the fiscal framework review, it is essential that we build on what we have learned from the operation of the framework to date and take account of what the pandemic has revealed about its inadequacies. I will certainly press for a broad review, because I think that it will need to build on what we have learned. I want us to look at how taxes operate right now in areas that have been more challenging, such as the assignment of VAT, and more generally at whether we have the right mix of risk, because ultimately we must ensure that we can plan ahead adequately and budget appropriately while managing risks.

Some of the original plans such as those on the assignment of VAT would have jeopardised some of the budget planning. We have concluded with the UK Government that we will roll up into the review the discussion on VAT assignment, and I have written to the committee about that. That will be a big opportunity to look again at the devolution of VAT.

11:15

The Convener: The final question will be from Patrick Harvie, who will cover local government issues.

Patrick Harvie: I seem to be having some problems with my webcam, so I hope that you can still hear me.

The cabinet secretary will have seen the evidence that was submitted by COSLA, which included a graph showing the forecast gap between local government income and expenditure even before the additional impact of Covid is taken into account.

In the past two years, there has been a rather tiresome dance toward the end of the budget process about just how much local government would be accommodated. Does the cabinet secretary accept that she has an additional responsibility this year to reach an agreement with local government well in advance so that she does not get into that late stage process of trying to figure out how much wiggle room the Government has left itself? Does she agree that Government has a responsibility to reach agreement with COSLA and local government about the settlement to make sure that their underlying needs for public services are met, as well as allowing for the additional impact of Covid in the Scottish budget provision for local government?

Kate Forbes: I think that I caught most of that.

The short answer on providing support to local government is yes. I am mindful of two particular challenges. The first is the timetable of a later

budget. Having an advanced and early close working relationship with COSLA will be absolutely essential in trying to give as much clarity as possible so that local authorities can plan ahead. At a meeting on 4 November, I agreed with Councillor Gail Macgregor that early and regular engagement about next year's local government finance settlement will be vital. We have agreed that we will have regular discussions with other cabinet secretaries and that members of the COSLA presidential team will participate at key milestones so that the engagement is helpful and allows local government to plan.

Secondly, local government has been exemplary in its response to Covid. I have said before, and I will say again, that it has been on the front line when it comes to additional welfare and business support. It has often risen to the challenge with very little notice and turned schemes around extremely quickly. That is part of the reason why an additional £5 million in administrative support was announced yesterday to help the teams that are dealing with that.

Local government's response has been exemplary and we will still be contending with the legacy of Covid into the next financial year. Ensuring that local government can continue to respond as it has been doing is critical to our Covid response. That will also feed into our negotiations on the local government settlement.

The Convener: No members have suggested that they want to ask any more questions, so that is a good place to end the discussion. In my constituency, Stirling Council's performance has been exemplary, particularly when it comes to getting things such as the hardship grant or the strategic framework money out the door as quickly as it can. That performance has been repeated round the country and we are in debt to those councils for doing that.

I thank the cabinet secretary for her evidence. The committee will consider a pre-budget report at the beginning of December.

11:19

Meeting continued in private until 11:33.

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