



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Finance and Constitution Committee

**Wednesday 3 February 2021**

**Session 5**



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**FINANCE AND CONSTITUTION COMMITTEE**

**4<sup>th</sup> Meeting 2021, 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)

\*Patrick Harvie (Glasgow) (Green)

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

\*Fulton MacGregor (Coatbridge and Chryston) (SNP)

\*John Mason (Glasgow Shettleston) (SNP)

\*Anas Sarwar (Glasgow) (Lab)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Dr Liz Cameron (Scottish Chambers of Commerce)

Rozanne Foyer (Scottish Trades Union Congress)

James Kelly (Glasgow) (Lab) (Committee Substitute)

Councillor Gail Macgregor (Convention of Scottish Local Authorities)

Eileen Rowand (Chartered Institute of Public Finance and Accountancy)

Mairi Spowage (Fraser of Allander Institute)

**CLERK TO THE COMMITTEE**

James Johnston

**LOCATION**

Virtual Meeting



# Scottish Parliament

## Finance and Constitution Committee

*Wednesday 3 February 2021*

*[The Convener opened the meeting at 09:03]*

### Budget Scrutiny 2021-22

**The Convener (Bruce Crawford):** Good morning and welcome to the fourth meeting in 2021 of the Finance and Constitution Committee. We have apologies this morning from Jackie Baillie, and James Kelly will be her substitute. I welcome James back to our committee.

The only item on our agenda today is to take evidence from two panels of witnesses as part of our budget scrutiny. I warmly welcome our first two witnesses to the meeting and thank them for providing written submissions: Mairi Spowage, deputy director, Fraser of Allander institute; and Dr Liz Cameron, director and chief executive, Scottish Chambers of Commerce.

The plan is to go straight to questions. I will begin with a question for Mairi Spowage on the mysterious world of the fiscal framework. The Scottish Fiscal Commission is forecasting a Scotland-specific economic shock, but it believes that the outlooks for Scottish gross domestic product and United Kingdom GDP are broadly similar. Most of the difference between the forecast for Scotland and the Office for Budget Responsibility's UK forecast is likely to be accounted for by the fact that the OBR's November 2020 forecasts were published before the current lockdown and so took a more optimistic view of the prospects for the UK economy in 2021, whereas the SFC is talking about now.

Are you able to give the committee any explanation for why the SFC's income tax forecast for Scotland is much higher than the OBR forecast for England? Indeed, for income tax, the net position for 2021-22 has increased from £155 million in February 2020 to £475 million in January 2021. That means that the Scottish Government will be better off by around £320 million which, as the SFC points out, is

"a significant increase in the expected funding available".

Should we not have been expecting the opposite, given that the SFC's economic forecast is more pessimistic than the OBR's economic forecast? I realise that there will be another forecast from the OBR in March.

That is a long question, but the fiscal framework is a complicated area and I am just trying to make sure that we all understand the implications as best we can.

**Mairi Spowage (Fraser of Allander Institute):** As you say, the specific issue of the Scotland-specific economic shock that has been forecast in the year-on-year figures up to quarter 3 of 2021 is mostly a fluke of timing. Essentially, forecasts that were made at the end of January 2021 took account of the poorer economic outlook that had developed since the end of November 2020.

The forecast outlook for 2021 is poorer in January 2021 than would have been the case in November 2020. In November, there was a lot of optimistic vaccine news; things were looking as though they might start to recover in early 2021. However, after that, we have had the new variants and significant lockdowns have been imposed across the UK. In general, anybody doing a forecast in January would have been more pessimistic than in November and therefore the trigger for the Scotland-specific economic shock is not a surprise.

The terms of the fiscal framework are very clear: it does not matter that there are these differences of timing if the conditions are met to trigger the shock; the additional flexibilities that are there for the next few years are now in place and they are in place even if that shock is essentially removed by the OBR forecast in early March.

The more complex issue is how that feeds through to income tax forecasting. Having looked at the SFC material in detail, unfortunately, I think that there is not a simple or single explanation for that seeming divergence or inconsistency. Among the things that I would point out are the fact that the relationship that we would traditionally expect between changes in output or GDP and what is happening to the labour market are not happening right now. There are a lot of breakdowns in those relationships because of things such as the furlough scheme and different measures to protect employment, which mean that a fall in GDP is not necessarily feeding through to falls in employment and wages.

Our understanding of what those relationships are has shifted because of the continuation of the furlough scheme. Of course, since the OBR produced a forecast, that scheme has been extended for a further month, which is one of the things that the SFC points out. At the moment, we do not understand exactly how the falls in output will manifest themselves in unemployment. However, both the OBR and the SFC are expecting that unemployment will peak at a similar level.

Also, since the OBR produced a forecast, the SFC has slightly changed the data that it is using to determine earnings, which is the main reason why the income tax forecasts are different. It has switched to using real-time information data; there was a further quarter of that data between the OBR forecast being published and the SFC forecast being published.

The main difference that happens for income tax growth is earnings growth and, in the SFC's report, it points out that there is still a levels difference between Scotland and the UK and it is assuming a degree of catching up, although most of the gap will persist over the forecast horizon.

The SFC points out a number of things, none of which is completely satisfactory, but a lot of the uncertainty is around the fact that both the forecast and the block grant adjustment have been revised down hugely. The BGA has been revised down by £1 billion and the forecast has been revised down by between £600 million and £700 million. Those are large changes in the forecast and, when we have movements of such a degree in those two very large numbers, it is not surprising that we have inconsistencies. The SFC's job is to produce the best forecast that it can of Scottish income tax revenues, but the OBR has a different view and uses different data at a different time; it has access to data about the UK that the SFC does not have about Scotland, and it is coming up with a slightly different conclusion about earnings growth overall. However, I understand that that is not a hugely satisfactory answer for the committee.

**The Convener:** I also understand that it is probably the only answer that you can give at this stage, because we are living in such unpredictable times, and the level of sensitivity in any forecasting at this stage will be significant.

Last week, Richard Hughes from the OBR told the committee that, although there are differences in the sectoral composition of the economy between Scotland and the rest of the UK, they are almost entirely offsetting in relation to the impact of the virus on the economy and income tax receipts, as shown in the sectoral GDP data and real-time information from pay-as-you-earn systems.

Again, it is difficult for us who are more steeped in that process to understand why the income tax net position has increased from £155 million to £475 million for 2020-21, so goodness knows how difficult it is for those who are observing from the outside. Can you give us more of your view on what is going on in that regard?

**Mairi Spowage:** As I said, there has been more RTI data about Scotland since the OBR produced a forecast and, obviously, the outturn for 2019 on

RTI wage growth was higher than expected last year.

With regard to the sectoral differences and the experience of the pandemic, I do not want to overplay what we know already. Broadly, according to the published data, it looks like the experience of the economy is tracking that of the UK fairly closely. However, to some extent, that is down to the way in which things are measured in the very short term, so I do not think that we yet understand to a huge degree of detail how things are playing out differently in Scotland.

We have made the point before that our understanding of exactly what has happened to the economy during the pandemic will probably evolve over the next couple of years, as we get more and better data about the experience of companies throughout 2020.

However, I agree that it is not easy to explain simply why there are differences in the forecasts, and I look forward to seeing how the SFC explains it next week; it might do that in an easier to digest form. It has explained some of the change in its earnings forecast in terms of lower public sector pay growth than it had assumed at that point. That has deteriorated since February 2020, but not to the same degree as the OBR forecast. For example, there might be some differences between the expectations for public sector pay growth in the rest of UK and in Scotland. I do not know whether that specific issue is a factor, because it is not covered in the report in great detail; the report just notes that it is a factor for the deterioration between February 2020 and the latest forecast. Given the higher proportion of employment in the public sector in Scotland, perhaps that is a factor, but I am not sure, because it is not clear from the report.

When we have those large numbers moving around by such large amounts, it is not very surprising that the BGA and the forecast are shifting so much and are off to that sort of degree. The budgetary consequences are significant, and that is one of the issues around the way the framework operates. It highlights the risks in the overall budget envelope relying on the views of two forecasters at two points in time, based on two sets of data and two sets of judgments.

**The Convener:** I will go to Murdo Fraser now, but that was helpful in signalling the areas where we might want to prod the Scottish Fiscal Commission at next week's meeting.

09:15

**Murdo Fraser (Mid Scotland and Fife) (Con):** I have a couple of questions and I will start with Liz Cameron. I was reading the Scottish Chambers of Commerce submission on the budget, which

clearly focuses on the need for economic recovery and business support. What is your take on the budget announcements on what is proposed for business support? Do they go far enough? What more needs to be done?

**Dr Liz Cameron (Scottish Chambers of Commerce):** I was listening intently to Mairi Spowage's explanation there and I was beginning to think that I was on a different planet. I understand the economics, which she explained very well, but I am smiling because a number of other conditions need to be taken into account, as she said. In particular, we have not focused on the fact that there was a lot of up-front output towards the end of 2020, particularly from manufacturing and construction. There was a lot of pre-planning, pre-stocking and increasing exporting trends during the final quarter of 2020, as businesses became nervous about the European Union exit day of 31 December. There was a lot of uploading in the final two quarters of 2020, which will skew the figures considerably. If we manage to get a 400 per cent increase in tax input in 2021, I will be delighted. I do not see that happening at all, but I am not an economist and I hope that Mairi Spowage is proved wrong.

I go back to Murdo Fraser's question on an economic recovery plan. I know that this might not be within the committee's remit but, obviously, health, vaccines and testing are absolute priorities, so please caveat whatever I say on that basis. The health and safety of our communities is the absolute priority. However, businesses now need an economic recovery plan. We do not want grants; we want the ability to trade, albeit in a phased and safe manner. For almost four months, we have been calling for an economic development plan that we can contribute to and design alongside our partners in the Government and the public sector generally so that we have something that is running in parallel with the health crisis plan. We need that, because we are not investing and we are seeing massive job losses, and many more are planned.

I thought that Mairi Spowage had a scoop and that we were going to have furlough for the next 12 months, but she corrected that quickly. Business is being screwed right now and we are going to be seeing massive job losses. Businesses need hope and confidence for our employees and our business owners that, if X, Y, and Z happen, we will be looking at a potential phased reopening starting in X, Y or Z. That is what we need right now.

We recognise that that might change and evolve every day, and that is fine, but we need some sort of tentative date for an economic recovery plan and an exit out of this. We need an idea of how we can focus on business survival and growth in the

short term, and then in the medium term, of how we will grow our economy. All that is missing, and in its absence confidence, optimism, trade and investment are all in a disastrous position. It is important that that happens.

On the economic recovery plan, we liked the announcement about the national infrastructure plan. That has been one of the key tools in the box that the Government can use to create an environment in which business can look at a recovery.

I will add that we like the £1.5 billion to 2025-26. I know that there are constraints around the amount of money that the Government can call on in any fiscal year, but is there any possibility of bringing that forward to stimulate our economy quickly in Scotland, perhaps using funds from the Scottish National Investment Bank or the British Business Bank? Can we get a bit of that money? Perhaps we could use private sector investors. That is a firm part of it; the intention is there, but we are asking for that money to be brought forward because it will stimulate our economy very quickly. It was tried and tested when we were in a previous recession. We are no longer just in a recession; we have a national disaster on our hands. If we could look at bringing that forward and make the case for that, we would value that.

Business support is all about reducing costs. We have talked about furlough, and we want that extended, but it is not the only game in town. We want to look at the Scottish Government budget. I appreciate that it has been a difficult budget to pull together in the absence of a UK budget until the beginning of March, but scenario planning must be going on to look at what we will spend any extra money on if we get it from the UK Government?

There should be open dialogue with business to make certain that any new initiatives are designed to meet our needs. There is no reason why that should not be done for business support by asking us what we liked and what landed well with us. We liked the reduction in the poundage rate, which was welcomed because the plan had been for it to increase this year, and the short-term extension of rates relief for sectors. Can we return to that, please? The amendment to the small business bonus scheme was great, as was additional financial support to help development agencies—I think that it was 12 per cent. However, the devil is in the detail. My question is how we will spend that money to support businesses, particularly in the sectors that need it right now. The committee knows what those sectors are, so I do not need to repeat that. We would like to know a wee bit more about how that spend will be focused to support the businesses that are in real need, whether they are self-employed or employing 10, 20 or 2,000 people.

We welcomed the focus on upskilling and reskilling. We called for that in our earlier submission. If we can get that right, it will be one of the saviours for our employees as we transform into new business models, particularly for small and medium-sized businesses. Reskilling is also important for individuals who have unfortunately been made unemployed. We want more funding for apprenticeships—we support the apprenticeship programme—and we would call for more focus on Skills Development Scotland, our skills agency for Scotland. Its budget seems to be staying as it is. On that basis, I am not sure where the spend will be made in that area.

The flexible workforce development fund is fantastic, “flexible” and “workforce” being two key descriptors. We like that, but it has never been independently evaluated. Again, we have been asking for that for some time. Let us make sure that we are putting our money in the funds in the right way. If it is successful, let us look at the good parts, and let us also look at where we could work more with our colleges and universities to make certain that the funding and skills training is going into the right area.

The national transitional fund, again—

**The Convener:** We will cover a lot of that ground in other questions. I am conscious that—

**Dr Cameron:** Okay. We liked that fund, but what we did not like was the non-domestic rates stuff and some of the housing focus in the budget. I am sure that I will come back to that with other questions.

**The Convener:** I am sure that there will be a chance, but we have time constraints today.

**Dr Cameron:** Sorry.

**The Convener:** Does Murdo Fraser have a follow-up question?

**Murdo Fraser:** That was comprehensive and I am sure that others will pick up on it in their questions. I have a quick question for Mairi Spowage. Looking at the budget as a whole, we see substantial increases from last year to this, particularly in revenue spend, according to the Scottish Parliament information centre. Resource budgets are up by 11.2 per cent, making this the highest budget in the history of devolution. Would it be fair to say that the age of austerity is over and we are now back into a period of inflation in public spending?

**Mairi Spowage:** What you said is certainly true: compared with the heights of the 2010-11 budget, which is the comparison that is often made, this is the largest budget that there has been. Whether that means that the age of austerity is over depends on how you define that. Obviously, there have been fairly large increases in the block grant

in recent years and healthy growth in the past few years compared with what we have been used to since the start of the austerity period, if we can call it that. It is certainly true that it is the largest budget in real terms since devolution.

**Murdo Fraser:** Okay. I will leave it there.

**John Mason (Glasgow Shettleston) (SNP):** I will start with a question for Liz Cameron. You have listed quite a number of things for which business would like support. How would those be paid for? Would chambers of commerce and businesses generally be willing to pay a bit more tax in the medium to long term in order to pay for the extra support that they are currently getting?

**Dr Cameron:** That is an interesting question. First, let us think about the rates relief. Businesses have already given back grants that they received in 2020 because they did not need them. It was really good that they did that and put that money back into the Government pot to respond elsewhere, and it is worth making that point.

I have not asked my members specifically about raising income tax, but I will give my view on that. Obviously, in the short to medium term, that option would not be welcomed, because we simply cannot afford to do that in the majority of—

**John Mason:** Do you accept that, in the long term, if business wants support in a crisis, it needs to pay for that in the good times?

**Dr Cameron:** That is recognised in some of the supermarkets giving back the money in the rates. Increasing taxation needs to be considered when the time is right, businesses can afford to pay additional tax, and what that money would be spent on is considered. The second point is important, as well. It is not simply a matter of raising either personal taxation or business taxation; it is a matter of what will be done with the funding.

**John Mason:** We are paying for the furlough scheme with that money. I accept that that is at UK level, but we are spending money now that we do not have. I presume that that is the answer to the question of where the money would go.

I want to move on to something else. In your submission, you mentioned city centres a number of times. City centres affect retail, offices and so on. Do you think that the city centres will go back to where they were, or do we need to look at a different model for them, maybe with more residential accommodation?

**Dr Cameron:** I do not think that city centres will go back to the pre-pandemic model. It is impossible to say what will happen, but that will not happen. The market forces have changed substantially in retailing—how we spend our money, how we shop, how we live and how we



work—and I am clear that city centres will not go back to the same as usual. In our discussions about the redesign element, we need to discuss what that means for city centre and town centre regeneration, but mainly city centre regeneration. City centres are absolutely the hub of big regional economies. A lot of research is being done and a lot of good reports are being developed and devised by partnerships with local authorities and chambers of commerce.

**John Mason:** Good. That is very helpful.

My next question is for Mairi Spowage. I am not sure whether you have seen the SPICe briefing, but there seems to be a reduction in capital expenditure, which seems to be largely because of financial transactions money from the UK being reduced. Can you explain that?

**Mairi Spowage:** Obviously, I noticed the large reduction in FTs coming through. Generally, they have been associated with schemes such as the help-to-buy scheme and other UK Government initiatives. I am afraid that I am not sure what the underlying reason for the reduction in FTs is, but it is interesting.

I understand that some of the money would be used to capitalise the Scottish National Investment Bank. The point about financial transactions is that they have to go beyond the public sector boundary: in essence, they need to be lent out to the private sector. In the past, the Scottish Government has used FTs to help capitalise housing associations and other such initiatives. However, I am not sure about the reason for the reduction in FTs.

09:30

**John Mason:** Okay—I can ask other people about that. Is there a concern—

**Mairi Spowage:** Those transactions are not traditional capital spending, obviously. They are more limited in terms of flexibility.

**John Mason:** Will there be an impact on capital spending? If there is a reduction, that would not be great for the economy, would it?

**Mairi Spowage:** Overall, Government will have an important role in infrastructure spending to help the economy to recover, so any reduction in capital spending is concerning. We would want to invest to help the economy to grow, and capital investment is a key part of that.

**Patrick Harvie (Glasgow) (Green):** It is pretty clear that, in addition to the direct public health impact, the pandemic has had an impact on our economy that is not evenly shared. Some people have been most vulnerable to the economic impact of Covid—in particular, those who already

had low or precarious incomes, as well as certain types and sectors of businesses. There are also those who have done very well. Some businesses have done very well, and some people's incomes have remained protected and they have generally been spending less of it on their social lives and so on. Some people have been very sorely affected economically, and some people have been quite well protected and have done well.

In questioning the Cabinet Secretary for Finance about whether the budget should seek to reverse the extra inequalities that Covid has caused or whether that should be for thinking about some years down the line, Kate Forbes emphasised stability.

My question is for Mairi Spowage. Given the public sector pay policy, which will involve higher increases for higher earners in absolute terms; the council tax freeze, which will save more money for people in bigger properties; the approach to income tax thresholds, which represents marginal, small amounts of money, but with more money saved for higher earners; and the approach to non-domestic rates, which makes no attempt at differentiation between businesses that have profited from the pandemic and those that have suffered, what is your overall take on the progressivity of the budget? Is it a budget that will worsen the Covid inequalities that have been created, will it help to address them, or is it neutral?

**Mairi Spowage:** That is a difficult question to answer. We welcome the more detailed consideration of the differential impacts that have been published with the budget this time. That additional detail is helpful. There is some focus on that in relation to community-led regeneration, employability and so on. That could potentially be targeted at those who have been suffering the most throughout the pandemic.

You are right about the council tax freezes. The council tax is a regressive tax and is likely to account for a larger proportion of the income of those who earn the least, but those in larger properties will get larger benefits from the freeze. Those on the lowest incomes are already likely to be benefiting from council tax reductions, so they will get a limited benefit from the council tax freeze.

The changes in income tax for the next financial year will mostly come down to the increase in the personal allowance, which is a UK Government policy and is not within the gift of the Scottish Government. The personal allowance increases benefit people right up the income distribution; the lowest earners are already out of tax, so they do not benefit from it.

Overall, it is probably a steady-as-she-goes sort of budget in trying to address the real inequalities that have been exacerbated by the pandemic. It is hard to characterise it overall, because of the different things that are in it.

**Patrick Harvie:** If it is steady as she goes and broadly neutral, there must be something in it that will counterbalance the regressive examples that I listed. With public sector pay, for example, some very high earners will get a £2,000 increase and some very low earners will get £500, which will increase pay inequality. Although the changes in council tax and income tax thresholds and so on might be relatively small amounts, they are pushing in the same direction, which is away from a progressive position. Is there something in the budget that I am missing that achieves a position that is, at best, neutral in terms of progressivity? Is there something that will push in the other direction to counterbalance the examples that I mentioned?

**Mairi Spowage:** No—there is nothing that I can call to mind. The focus on employment support and employability may contain policies that could be targeted at those who have suffered the most. Broadly, however, Patrick Harvie's characterisation is fair.

**Patrick Harvie:** I will ask one wider question on tax, on which we can perhaps hear from both witnesses. There is an expectation that, maybe not in the coming financial year but in the relatively near future, the UK will have to address some deeper questions about tax policy as part of fiscal consolidation. Aspects of that will be wholly reserved. Ideas such as replacing council tax and non-domestic rates are being talked about at UK level, as is a national insurance-like social care levy. Is Scotland ready for that wider debate on tax reform, given that we found it impossible even to keep people around the table to talk about council tax in recent years? Are we ready for that debate, and should it begin with this budget?

**Mairi Spowage:** Whether we are ready is a good question. As Patrick Harvie said, we have talked about council tax reform for years and years. I am not sure that we need another commission or group to talk about it again to come up with explanations.

**Patrick Harvie:** That is the last thing that we need.

**Mairi Spowage:** It will take boldness. Thinking about how we could reform NDR and council tax is within the gift of the Government and Parliament in Scotland. Wider tax issues are obviously more tricky, given the partial devolution of some taxes and the reserved nature of others. We cannot get away from the interactions between them; for example, how capital gains tax interacts with

people who come out of income tax. Those sorts of interactions cannot be dismissed, and they make the approach around income tax a bit more tricky.

As Patrick Harvie said, bold decisions will probably have to be made about how we fund social care. That conversation has been massively highlighted by the pandemic and should shoot up the agenda as a result. The debates on how to tax land and property in Scotland and on whether the non-domestic rates system is fit for purpose have also been crystallised by the pandemic, given how many properties in Scotland are now the subject of relief, whether temporary or permanent.

There is another report this morning about town centres, the fact that NDR needs to be reviewed and whether we can capture the way that businesses are operating digitally. Although I have not seen any proposals about how that would work, the time is definitely ripe for a fresh debate, and we have to be a bit bolder about admitting that there will be losers as well as winners from that.

**Patrick Harvie:** I put the same question to Liz Cameron. Is the business community ready for a wider debate on tax policy and the greater role that tax innovation will have to play? At times, when that question is raised, the business community's response rarely seems to go beyond, "We'd quite like to pay less, please—thank you very much."

**Dr Cameron:** You are right. Your previous question was, "Would businesses pay more tax?" and my initial reaction was, "No"; I will expand on that and then answer your question.

Are we ready for that wider debate? Timing is important, because the pandemic has shone a light on inequality across all our communities. Business gets that, and understands it. Businesses can contribute towards changing that situation, in the right way and at the right time. If we came out in three weeks' time and said to business, "We're going to increase your taxation by X, Y and Z"—the Scottish Parliament has the ability and authority to do that right now—it would not land well, and it could have a detrimental effect at this point in time, in 2021.

Are we up for a debate, though? The answer is yes. We have been up for a debate, and we have now had nearly eight years of talking about the broken system of non-domestic rates, and the fact that some businesses benefit from grant support when they do not need it while other businesses need that support more. We need to have a realistic debate on that.

If we start a debate on the basis that the tax take cannot decrease and must remain stable, we immediately put in place a barrier to creating a system that works for everyone. If we looked at

those costs for businesses, we could enable them to give back an awful lot more, whether through taxation or employing more people, or by beginning to raise salary thresholds for many staff. We should never, ever have a society in which individuals are working below a particular wage level and are absolutely on the poverty line. That is not what business wants. We would therefore be up for that debate.

**Patrick Harvie:** If it was possible to target a one-off Covid windfall tax at businesses that have profited from the pandemic, it would be hard to argue against that, would it not?

**Dr Cameron:** The businesses that are profiting might argue against it. Some businesses have benefited because their particular sector, whether it is technology, logistics or whatever—I could go on; there are a lot of such sectors—has grown. That is good, because they will have been able to maintain jobs and—we would hope—recruit and upskill more people, especially younger people.

The question of individuals who have benefited needs to be debated further. When businesses make a profit or break even, or make a loss, they reinvest money into their business to enable them to employ more people. We have to get the balance right. I hear where you are coming from, Patrick, but it is important that the debate takes place in the right environment and at the right time.

**The Convener:** Anas Sarwar has a supplementary to that.

**Anas Sarwar (Glasgow) (Lab):** I have a quick question for Mairi Spowage that follows on from Patrick Harvie's question. Patrick Harvie talked about a redistributive budget. You seemed to suggest that you do not think that the budget is a redistributive or reform budget. Is that correct?

**Mairi Spowage:** There are elements in the analysis that has been produced alongside the budget that show how the budget takes account of equality considerations and looks at addressing poverty in Scotland, but I would not say that that was a very large feature of it, given some of the issues that we have talked about, such as the targeting of measures such as the council tax freeze.

**The Convener:** I have a question before James Kelly comes in. With regard to tackling poverty and inequality, I hear what Mairi Spowage says, but there are spending measures in the budget that we hope will start to address some of those issues. Some £68 million is being invested in the Scottish child payment, there is £53 million to fund universal free school meals, and there is a doubling of the investment in the tackling child poverty fund. In addition, £3.6 billion is going into social security for carers and those on low

incomes. It is about not just the redistribution element but the spending element. What impact do you think those sorts of programmes will have in that regard?

09:45

**Mairi Spowage:** The extra money that has been given to carers since responsibility for that has been devolved, for example, is very welcome. That brings the money up to the level of the jobseekers allowance and corrects an imbalance in the social security system through the carers allowance supplement. I am sure that that is very welcome for those people.

The child payment has been seen as a very welcome measure in trying to target resources directly at children in poverty. All the evidence shows that that is the most effective way to tackle that. The Scottish child payment should be lauded as an innovative measure that Scotland has been able to introduce to deal with child poverty. Whether it is enough to deal with child poverty to the extent of meeting our statutory obligations is another question, as is whether some of the money for things such as the council tax freeze could have been used differently to further those ambitions.

Those are all choices. However, I agree that things such as the child payment are innovative and focused on lifting children out of poverty, that they are evidence based, and that they have been shown to work. On whether they are enough and how things have been changed by last week's budget as opposed to measures that have already been announced, I was focusing more on what was announced last week rather than the—*[Inaudible.]* As you pointed out, there are many initiatives to deal with inequalities and poverty in our society. However, we should remember that those things have likely been exacerbated by the pandemic.

**The Convener:** Indeed.

**James Kelly (Glasgow) (Lab):** I want to turn to employment. There is no doubt that we are in the middle of a jobs crisis and that that will deteriorate further. Commentary has indicated the potential for serious job losses in the spring and that the effects of the pandemic will be with us until at least 2024. My first question is for Mairi Spowage. Given that backdrop, are there sufficient measures in the budget to deal with the fact that we have an on-going jobs crisis that will get worse before it gets better?

**Mairi Spowage:** Obviously, some of the measures that are likely to support employment throughout 2021 are not within the gift of the Scottish Government. For example, the furlough scheme has been essential in keeping people

attached to their employer, and any replacement for that scheme—if there is to be one after April—will obviously be key in trying to reduce the worst impacts of the unemployment that we know is coming down the track.

The forecasts at the moment assume that the furlough scheme will end at the end of April and that—as far as I am aware—there will be no wage subsidy scheme after that. I would be surprised if that is the reality and some sort of scheme does not replace that, perhaps in the vein of what was proposed for after the furlough scheme was going to end, in subsequent months at the end of last year. I hope and expect that there will be a similar wage subsidy scheme but, obviously, that is not within the gift of the Scottish Government. Rather, what will happen will be outlined in the UK Government budget.

On whether there is enough to support jobs, Liz Cameron outlined some concerns about the support for bodies such as Skills Development Scotland, focusing on retraining, and ensuring that young people have opportunities. That is an interesting area to explore further. The money for enterprise agencies to support businesses could help in supporting jobs, but that depends on what the money is spent on and which sectors it is focused on. To be honest, the question whether there is enough money is a difficult one to answer, because it depends on the detail of how the moneys will be spent.

**James Kelly:** Liz Cameron, in response to Murdo Fraser, you discussed the need for a proper economic plan. In your submission, you gave some commentary on the sectors affected. Can you tell us what sectors are most under threat in terms of loss of employment? What should the key factors in that economic plan be in terms of prioritising sectors?

**Dr Cameron:** The key sectors are the ones that closed early and that are consumer facing. The lockdown had an immediate impact on them. The tourism sector employs a lot of people in Scotland and, from an international perspective, it is important with regard to the promotion of the country. Therefore, we must do an awful lot more to help it, as well as its supply chains—manufacturing, events, hospitality and so on.

Retail is the other obvious sector that everyone talks about. However, we need to qualify that by saying that some aspects of retail are doing well. Obviously, retail outlets in city centres are not doing as well as they could and should be doing, but there is a glimmer of light in terms of transforming the retail offering. Ultimately, I would like to see us focusing not on the entire retail sector but on small and independent retailers in particular, as well as those who need support elsewhere. Initially, we should look at the

reduction of their cost base until they can get back out to trade, and we should think about how we can phase that in in a way that is safe for everyone.

Those are the two key sectors, but there are people in broader sectors, such as sole traders—taxi drivers and some people in construction, for example—who are not able to go back to work right now. There is an army of individuals who do not fit neatly into sectors, and they should be looked at a little more closely. There must be a targeted and focused approach that examines the detail.

On the issue of employment support, the best thing that we can do is try to keep businesses open and keep employees in jobs. Therefore, that employment support might not only be about grants, although that approach is helpful; rather, it should be about us doing everything that we can to get our economy opened up again. We have to phase that in early and safely, and invest a lot of money in making our premises and offices safe, because we need our economy opened up as quickly as possible. That effort will be better than employment grant support.

**The Convener:** Tourism is a hugely important sector in my constituency of Stirling. Will you say a bit more about what you mean in that regard?

**Dr Cameron:** Are you asking about support for tourism?

**The Convener:** Yes. Could you be a bit more specific about what you mean and quantify that, for the purposes of our report?

**Dr Cameron:** First, it needs to be opened up safely, and we can do that. Secondly, we need to think about reducing the costs to businesses as they begin to open up over a 12-month period. That involves thinking carefully about the issue of non-domestic rates, which are a big cost for them. We also need to look at policies such as the tourism levy. We are working on the assumption that that will be shelved.

There is also the issue of VAT. I know that that is not within the gift of the Scottish Government, but you have influence over the United Kingdom Government. It is important to reduce VAT in the way that happened for areas such as Aberdeen.

It would also be helpful if there were some kind of phased employment support, which would decline over a period of time. That would give us the opportunity to open up the doors.

Those are just a few examples; I can give you more. It is clear what the tourism sector is looking for. I am happy to send you the bullet points from the tourism action plan.

The issue of the cost base is important. We need time and breathing space in which to open up again. The grants are not substantial in the context of the costs of keeping hotels and bed-and-breakfast establishments open, keeping catering staff together, and so on.

We should look closely at where we are spending the money and at whether we are focusing on those businesses that really need it. That is why discretionary funding, for example, is important. If businesses are going out of business because of the pace, the pace is too slow.

**The Convener:** Does Fulton MacGregor have a supplementary question before I bring in Tom Arthur?

**Fulton MacGregor (Coatbridge and Chryston) (SNP):** Yes. Liz Cameron gave some specific examples. In my constituency work, I have been dealing with nightclub and soft-play facilities owners, who have contacted me. You might say that they are not a likely alliance of businesses, but they are in the unique position of having had no opportunity to open over the past year. The people whom I have been speaking to in those sectors—especially nightclub owners, as soft-play facilities owners are hoping that something can be done for them—do not see their businesses opening any time soon. Do you have any thoughts about supporting those sectors and how they link into the wider economy? They received a one-off grant, which I asked the cabinet secretary about last week, because I hope that they might receive another one. How sustainable is that in the longer term? Are we not at risk of losing soft-play facilities and nightclub businesses?

**Dr Cameron:** We are absolutely in danger of losing them. You mentioned two sectors. I talked about the businesses that are underneath the big headline sectors of tourism and retail. We went into a partnership with the soft play association—I did not realise previously that there was one—to lobby Government a few months ago. The sector was getting absolutely nothing—it was not on anyone's horizon. The figure for the number of people that the sector employed in Scotland was 10,000, 20,000 or 25,000—it was big. It is about not just the employment aspect but the service provision, which is much needed in many areas. We lobbied very hard, and we managed to get the Government to at least give it a grant. However, that was a one-off, which is not sufficient, and we will see more soft-play centres close—in fact, some are closing as we speak. We need to look at that sector, because it is important to our economy. It is mostly run by small and medium-sized business owners, and it employs a lot of staff.

I understand that about £500 million in the budget remains unallocated. Funding is available,

so let us look at what sort of funding we can give to keep those businesses sustainable and ready for reopening. The only way to do that is by giving cash quickly because, although those businesses are closed, they still have operating costs. They still have to pay their rent, maintain their buildings, and pay their insurance. We should be looking at grants to help them with those other overheads and, again, we need to get those out the door quickly.

The situation for nightclubs is unknown—they were categorised as entertainment. Nightclubs are major parts of our centres and our economy, so their situation should be considered.

I am now working with the Scottish Taxi Federation, because the design of the grants that have been given does not meet what businesses and drivers need. We are going back to the Scottish Government to review that next week.

Somehow those sectors seem to have continued under the radar, and they employ thousands of people. We need to do everything that we can to enable them to keep going, whether that is for the next month, the next three months, or whatever. That brings me back to my point about the need for an economic plan and an exit strategy, so that we in business can have the hope and confidence to keep going, because it is hard out here.

10:00

**Tom Arthur (Renfrewshire South) (SNP):** My first question is for Mairi Spowage. I would like a sense of the practical implications for the Government now that we have technically reached a Scotland-specific shock. My understanding is that there would be—[Inaudible.]—and waiving the borrowing limit for the reserve fund, and that there is an opportunity to refinance existing debt in the period of a Scotland-specific fiscal shock. What are the practical implications and what options and opportunities does the Government have to be innovative through this period?

**Mairi Spowage:** I am sure that the Cabinet Secretary for Finance and the Scottish Fiscal Commission will be able to give the committee more details next week, but my understanding of the additional flexibilities is that there is a higher limit on resource borrowing to cover forecast error, but that still has to be tied to forecast error. That has enabled £90 million extra to be borrowed for resource in the current budget plans than would otherwise have been the case.

Also, the limit on borrowing from the reserve is removed. The plan was to draw down the resource maximum from the reserve anyway, given what was in there, but removing the limit has allowed more capital to be drawn down from the reserve.

Those flexibilities remain in place for the next three financial years, allowing possible future use of the drawdown for capital, for example.

Some flexibilities have been introduced, but they are limited. On the resource side, my understanding is that it all has to be tied back to forecast error. If the forecast error is larger because of the specific economic shock, the idea is that there is greater provision. However, the need still has to be evidenced as being due to forecast error. The Government cannot just draw down more because it would like to spend it on day-to-day activities. That is my understanding of the extra flexibilities that are available to the Government if there is an asymmetric shock in Scotland.

However, as we have discussed previously, the past few years have shown that the issues arising from relying on forecasts of very big numbers from two different forecasters mean that the overall provisions in the fiscal framework are probably not sufficient for the level of risk that the Scottish budget is operating under. The slight extra flexibilities are welcome, but they do not give enough flexibility, given that we are relying on those forecasts of income tax—[*Inaudible.*]*—*large changes that can make to the overall funding envelope.

**Tom Arthur:** Would it be fair to say that one of the primary deficiencies in the Scotland-specific shock aspect of the fiscal framework is the failure to increase the envelope for capital borrowing? We all understand the importance of capital spend in working our way out of an economic shock and recession, but my understanding is that the fiscal framework does not have that provision. It seems to be more about allowing the management of increased volatility around forecasts rather than making provisions that allow the Government to make significant interventions.

**Mairi Spowage:** I think that is fair. The focus is on giving the Government greater coverage for forecast error and the ability to draw down more of the money that it has saved up, whether that is for resource or capital. It does not give provision for economic stimulus above and beyond the normal capital borrowing powers. It does not introduce flexibilities with a focus on Scotland-specific economic stimulus.

**Tom Arthur:** What lessons can be learned from the timing and phasing of the UK and Scottish budgets? The cabinet secretary has given an undertaking to extend relief on non-domestic rates for three months, but she was unable to go beyond that because we are still waiting on the UK Government budget. In the review of the fiscal framework that is coming, is a broader discussion needed about how and when the UK Government chooses to announce its budget? If it will be

leaving its budget until later, perhaps mechanisms are needed to increase flexibility for the Scottish Government so that we are not left in such a position of uncertainty, which feeds into uncertainty in the wider economy because the Government cannot make announcements that it would wish to.

**Mairi Spowage:** That is fair. When the UK budget was in the autumn—albeit that it never settled down terribly well until the beginning of the year—the idea was that most of the UK Government announcements that would affect the block grant, and the BGAs, would be broadly known then. The envelope for the block grant and the block grant adjustments would be known and the forecast for devolved taxes would be produced at that time.

In the past few years, the UK budget was announced in March, which is not ideal. This past year, the additional flexibilities that the Treasury outlined around the choice of which BGAs to use are welcome, because that choice gives certainty to the budget. However, the fact that Kate Forbes was not able to commit to rates relief beyond three months further flagged up the issue of budget timing.

I would expect the UK Government to introduce rates relief for the next financial year or at least part of it—I would be surprised if it did not. Had the UK budget been known, I imagine that Kate Forbes would have followed suit, which would have given immediate certainty to those businesses that they would be able to rely on that relief being in place for the whole financial year rather than just the first three months.

Kate Forbes has obviously assumed that additional consequentials would come from the UK budget. The amount that she has assumed, given the Covid contingency fund and everything, seems prudent. The SFC has also said that the amount seems sensible but conservative.

Those additional uncertainties do not help, but her assumption of £500 million, and the fact that she has funded £180 million or so in the budget for the three-months rates relief probably means that, once the UK Government budget is announced, there will be more money to spend next financial year than we currently expect.

I agree that the situation is not ideal. Devolution has happened in the UK—not just for Scotland but also for the different devolved Governments—and the devolved budget processes are a part of it. The UK Government could, and should, show a bit more cognisance of the fact that those processes exist and that they always need to be passed in devolved Parliaments before the start of the financial year in order to enact the rate resolution and so on. Those processes should be respected,

and part of that respect is about certainty over the UK budgetary position.

**Tom Arthur:** I have a question for Dr Cameron about longer-term support. I am involved in a piece of work that the Social Security Committee has been examining on how social security can support the recovery from Covid. It usefully conceptualises the acute, immediate phase and the recovery phase. If we transpose that concept to interventions to support business, we have support through grants, furlough and the strategic framework's business support fund, but there is also a need to look to recovery.

Dr Cameron, in your previous remarks, you outlined a request for a plan or route map. What are your reflections on the Scottish budget's commitments to the longer-term issues of recovery through things such as the young person guarantee or the national transition training fund? Do you think that those funds are sufficient? What else would business like to see with regard to longer-term support, particularly around skills, and around helping businesses to transition to a post-Covid world with a greater uptake in e-commerce and online and virtual meeting platforms?

**Dr Cameron:** Some of the focus of the budget, particularly on education and skills, is pretty good: there is an uplift in college and university funding; the budget considers the skills agenda—the reskilling and upskilling that we have talked about—and there is the announcement about the green jobs fund.

That is great, but—a “but” is coming—it is important that we work on the detail of the design of what we will spend that money on, particularly around transitional and digital funding. One of the key areas for skills and transforming businesses, particularly small and medium-sized ones, which we did not have, is around the technology and skills agenda.

In a number of weeks, we have moved a lot to online trading. It is not just about e-commerce; it is about technology more widely and the ability to reach a wider market. We need people who have those skills to come into our businesses now. The problem is that we have an immediate need that has been thrust on us very quickly. It could be argued that we perhaps have not trained sufficiently in that area, and I would probably accept that. As somebody who runs a small business, I know that that was one of the issues that we had to deal with, but we were firefighting somewhere else. That is replicated in every business that we know.

It is about transformation of business models. We need to work within the environment of the social security systems. We want to give individuals experience, training and development.

We have to combine all that and put our training plan and skills plan in the recovery plan. The Mark Logan report goes a long way on that, but we have other skills needs. We do not have any logistics people who can actually plan for us. There is so much talent out there ready to upskill and reskill and to train for the jobs that we have now.

We have jobs. In two months, we have gathered more than 1,300 jobs through the kick start programme, which is positive. We will work with the young person's guarantee and the developing the young workforce programme. The challenge is in joining all that together. We can be a bit fragmented at times, although that is not planned. We need an operational skills training plan that is clear about the jobs that we need now, and then we need to up the pace of that. We cannot afford to wait 12 months to train someone, whether they are unemployed or in employment. That is why we need a focus on short, sharp courses, and experience of working in businesses.

If we combine all that, we will have a fairly good chance of alleviating as far as possible the rise in unemployment that we will see. I would like to see real innovation and partnership work involving all partners.

**Tom Arthur:** I would love to continue this discussion, but I am conscious of time, so I have no further questions.

**The Convener:** That was a good move, Tom—thank you. Alexander Burnett is next.

**Alexander Burnett (Aberdeenshire West) (Con):** I note my entry in the register of interests that relates to construction.

I have two questions, both of which are aimed at Mairi Spowage. The first is about the holiday in land and buildings transaction tax as a result of the threshold rising, which has led to higher revenues. In December, revenues were nearly 50 per cent higher than previously. Are we in danger of forgetting our Laffer curve lessons when we remove that holiday?

Secondly, last week, the OBR showed the importance of public spending and the construction sector in getting the post-pandemic recovery plan under way. Those two areas of public spending and construction combine in social and affordable homes, but the budget for that is being cut by £268 million, which has been described by a housing charity as “a huge step backwards”. I would be grateful if Mairi could share her view on the economics of that.

**Mairi Spowage:** Your first question was about the impact that there might be in removing the LBTT holiday. That is a great question. Obviously, we had a resurgence in the housing market in the summer and autumn. Although there was a lot of

pent-up demand, the market was unexpectedly buoyant in that period. In Scotland and across the UK, there is a concern that the return to previous tax rates might dampen that enthusiasm. Obviously, any tax on transactions will reduce them—that is the nature of tax. Therefore, it is possible that ending the holiday will impact on the number of transactions and therefore on things such as house prices in Scotland.

In addition to tax, there might be wider issues. For example, if people are starting to see a real impact on their incomes or feel more nervous about the future, they might be less likely to make the move or to move up the ladder. There will be wider economic considerations around confidence. Nonetheless, the introduction of any tax would be another factor in reducing demand slightly in the housing market.

10:15

Your second question was on social and affordable homes. There is a huge discussion to be had about the way in which public sector spending and the construction industry can support the recovery. That could be through huge programmes of green retrofitting or maintenance in order to make sure that our buildings are in line with the transition to net zero, or through the construction of the new and affordable homes that we know that Scotland needs.

There has been a lot of investment in affordable homes during the current session of Parliament, but all the evidence suggests that there was a lot of catching up to do with respect to the number of homes that were needed. Such a scheme could stimulate economic recovery, but retrofitting and the maintenance of existing homes could have a similar effect on the construction sector.

In looking at all that, we have to ask about capacity in the industry. There will be a lot of focus on building new homes in certain ways to help our transition to net zero. Do we have the skills that we need for that? Will we have to import a lot of the technology that we will need to be able to do that in a green way? Can we build the supply chains in Scotland? Those are all opportunities for recovery that we can look at in order to ensure that we get as large an economic boost as possible from those activities.

We need more homes in Scotland, and building affordable homes would therefore be a sensible part of the economic recovery.

**Alexander Burnett:** That is my point. You talked about the potential risk from removing the LBTT holiday and what affordable homes could do, but the budget is being cut. Does that give you cause for concern? Most people were expecting the budget to rise or at least remain steady, given

the housing pressures, and yet we have seen a massive drop.

**The Convener:** In answering that, perhaps Mairi Spowage can enlighten me as to the level of capital expenditure limits that applied in the previous financial year in comparison with this financial year. I would like to know what that looks like overall, because I cannot remember.

**Mairi Spowage:** I do not know whether anyone here can confirm this, but my understanding of the overall budget is that the overall capital allocation has fallen slightly in comparison with last year. I am afraid that I do not have the figures for the affordable housing element in front of me right now.

With regard to all these aspects, the question is, what is the money being spent on instead in order to generate an economic benefit? As I said, there is no doubt that we had some catching up to do to meet our housing needs in Scotland, and a lot of the academic evidence shows that we have not caught up on all the building that we need to do to ensure that our housing need is met.

There is an argument that more should be invested in that, but the question is, where is that money being invested instead? What are the different options for stimulating the economic recovery? If that money is not being spent on housing, perhaps it is being spent on something else.

**Alexander Burnett:** Absolutely—thank you.

**Dean Lockhart (Mid Scotland and Fife) (Con):** Good morning to our guests—thank you for joining us. My first question is for Liz Cameron.

You mentioned in a previous answer the potential role that the Scottish National Investment Bank could play in the recovery. After all, it has available a significant budget of between £400 million and £500 million. There has been some debate over whether the bank should stick to its original mandate and funding based on its long-term mission, or whether, in the current exceptional circumstances, it should get involved in using its budget to save existing businesses that are a strategic part of the economy. We will need those businesses for the longer-term economic recovery. Should the SNIB be involved in helping existing businesses to survive the pandemic?

**Dr Cameron:** Yes, it should be doing that. You mentioned that we are in exceptional circumstances. We have had a year of national disaster and I think that the SNIB needs to rebalance.

The SNIB was designed and developed two or three years ago. Fast forwarding to now, I believe that it should rebalance its focus, particularly given that we are just about to enter a phase when



banks are reviewing their debts, loans and overdraft facilities, and their focus is on rebalancing their balance sheets. A number of businesses—businesses that are absolutely viable—will have a big need for support if we are either to sustain them and/or grow them.

Mairi Spowage mentioned construction and housing. It is about how you cut the cake and spend it. The construction sector is a perfect example of where we should be looking at providing economic stimuli, not just in the housing market but in other areas, including perhaps in commercial property away from town centres—warehouses, for example, which we cannot get right now. Could we be helping and partnering with some private sector investors in that area? We need to rebalance the focus.

**Dean Lockhart:** Does Mairi Spowage have a view on that from an economic policy perspective? Does it make sense to invest now in order to recover in the longer term?

**Mairi Spowage:** Yes, it makes sense to invest now to support businesses that would otherwise be perfectly viable. However, we must remember that the longer-term challenges for the Scottish economy have not gone away. There is a balance to be struck when considering the role of, for example, grants or reliefs in ensuring that businesses that would be perfectly viable, were it not for the situation that we are in, are able to get through this and operate normally again.

The longer-term challenges are around net zero emissions and productivity. I said that those challenges have not gone away, but many of them might well have been exacerbated during the crisis. To ensure that key anchor businesses survive through the pandemic, there is a balance to be struck between Scottish Government spending on grants and so on and the role of the national investment bank in looking at how it can invest. However, an eye must also be kept on the longer-term problems. Perhaps recovery should be considered in ways that are consistent with the longer-term goals around net zero and reducing inequalities.

**Dean Lockhart:** I thank you both for those useful answers.

I believe that time is a bit short, so I will move on and follow up the discussion about the impact on technology and the move online. You mentioned long-term trends. Moving online was a long-term trend, but that has suddenly accelerated during the past 12 months. Is enough being done to support businesses to move online?

Last month, the digital boost development grant closed five hours after it opened. The funding was made available on a first-come, first-served basis, as opposed to allocation being merit based.

What more can be done to help businesses move online? Training and skills have been mentioned. Can the Scottish Government get directly involved to help firms across different sectors to accelerate the move online?

**Dr Cameron:** Yes, it can. You are right that the Government moved fairly quickly and, in fairness to it, I do not think that it realised the extent of the demand for such support. I hope that it has learned from that.

As well as upskilling individuals, we need them to be at the level where they can come into our businesses and, in some cases, help them to transform their whole business model so that they sell and trade more online than they have ever done before and begin to grow their business through that. That will not happen in the domestic market, so we are looking for a rapid opportunity to reach more people around the globe, because we have fantastic services to offer.

This is not about having consultants—I will not call them that—but about training individuals and getting them into our businesses as quickly as possible. We need to have short, sharp training, which would also meet other objectives by bringing in individuals who are, or who are about to be, unemployed and retraining them in the areas of the digital agenda that business needs. Digital itself has another 40 facets to it, so the specific detail of such an approach would need to be clearly identified before support was provided. We are working on that. My hope is that the Government will create or develop a new digital support package, which I know will be oversubscribed. We need to get that aspect right.

**Dean Lockhart:** I put the same question to Mairi Spowage. Also, are other Governments or organisations taking policy measures that address that issue in an accelerated way?

**Mairi Spowage:** Oh, gosh—nothing springs to mind, I am afraid. The Government has a role in infrastructure as well as training, because we need the right infrastructure to enable us to access digital services and for businesses to operate digitally. As those of us who have struggled with having several children on wi-fi while we try to attend meetings such as this one will know, it can be challenging for people to ensure that they have the bandwidth to conduct business appropriately on digital platforms. Therefore, in addition to training, infrastructure will have a large role to play if we are to ensure that people have the basic building blocks to enable them to operate effectively.

**Dean Lockhart:** Convener, given the time, I am happy to conclude my questioning there.

**The Convener:** Thanks, Dean. I am very grateful to you.

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

**(SNP):** This is perhaps a question for Mairi Spowage. For good reasons, there has been a lot of debate and discussion about businesses' need for support from the Scottish Government. Although perhaps not to the same extent, there has also been debate about the Government's borrowing powers—we are, after all, talking about borrowed money. The implication seems to be that, if we have to have more support in the future, that will mean either more borrowing by the UK Government or allowing borrowing powers for Scotland. You may be wary about treading into that area, but should we be having a public debate about borrowing powers?

**Mairi Spowage:** There are two aspects to that. As you have pointed out, the support that the UK Government has given through measures such as furlough, bounce-back loans or other funding that has not come through Barnett consequentials has been funded by borrowing—as, indeed, have measures that have come through the consequentials. The Scottish Government has been able to choose how it spends the money that has come through Barnett. However, that has been broadly spent in the same way, through business grants and support for individuals that have been administered mostly through local government. Much of the support that has been funded through borrowing by the UK Government has been seen as the right thing to do to get us through the crisis. The aim has been to ensure that individuals remain attached to employers that would otherwise be perfectly viable businesses, and that those that should survive the crisis will do so as far as is possible. However, the Government has been clear that it cannot save every business or support every job. There is no dispute that that was the right thing to do, especially given the current low costs of borrowing.

As for the debate over borrowing powers for Scotland, I guess that there are two aspects to cover. There is the question whether the borrowing powers or flexibilities in the fiscal framework are sufficient given the level of risk to which the Scottish budget is exposed, whether that be in normal circumstances or during a crisis. As we have already discussed, it is clear that the fiscal framework's provisions are not suitable for normal times as regards the level of risk to which the budget is opened up. There is also the potential variability in the forecast and what ends up coming in at the end of the day. It is clear that, given the taxes that are devolved to the Scottish Parliament, there is currently not enough flexibility in the fiscal framework to manage that level of risk. Whether the Scottish Government should have further borrowing powers to enable it to borrow more money, if additional spending was desirable, is the subject of on-going debate.

10:30

The additional money that has been allocated through the Barnett formula is not allocated on the basis of need, so there is no assessment of the types of businesses in Scotland and how much they need; the money comes through the technical application of the Barnett formula and is a result of how much has been spent in England. The amount that is needed is not assessed in Wales or Northern Ireland, either. There is perhaps a broader conversation to be had about whether that is the right way to allocate money in a crisis, but it has worked like that for a long time, so it is hard for people to think about moving away from that way of doing things. In addition, to do otherwise is unlikely to benefit Scotland in terms of the amount of money that we receive.

There is therefore a broader debate to be had over whether the Scottish Government should be given more borrowing powers for day-to-day spending in a crisis or when it feels the need to stimulate the economy. Irrespective of whether that is likely to be part of the fiscal framework review, I suspect that the Treasury will want to keep things quite focused and is unlikely to grant additional borrowing powers to the Scottish Government. However, I might be wrong.

**Dr Allan:** Related to that point, we have heard about how this is a bigger budget or allocation than we would normally receive in Scotland. I presume that history will look back on this year and the previous year as aberrations. On the graph, this year and the previous year will look more like the position during the two world wars than the normal position when we discuss how much money Scotland should receive for normal purposes. You mentioned that the formula is not based on need. When we talk about this being a big budget allocation, are we dealing with normal questions, or is it purely a reflection of an abnormal situation that does not have much bearing on the debate about how much Scotland might need for its purposes?

**Mairi Spowage:** The issues are magnified hugely, given the amounts of money that have been spent in-year and which therefore generate consequentials. The figures are massive in comparison with those in normal years. That highlights the point that there is no determination of how much is needed in each part of the UK, which is just done mechanically. It is fair to ask whether that is the right way to do things. We know that we have higher levels of public spending in Scotland, Wales and Northern Ireland than the UK average, and that we spend more per head in Scotland than is spent in England by quite a way. There are reasons for that to do with service provision and everything else, but because of how the system has operated over the years,

what is required has not been looked at. However, as I said, it might be pretty difficult for everybody to accept that that should happen, and it seems unlikely that it will happen, although there have been more and more calls for it over the years, particularly from people in Wales, who feel that the Barnett formula has not been beneficial to them.

**Dr Allan:** I suppose my questions have been leading up to my next question, which might be for Dr Cameron in the first instance. Do some of those factors point to the need to extend the furlough beyond this spring? That is an open-ended question and I am not offering a view, but does business have that view?

**Dr Cameron:** Yes. We need an extension of furlough, or its replacement or redesign. We cannot just keep getting furlough because, to go back to Patrick Harvie's comment, somebody is going to have to pay for that spend eventually. Whether that is done through business taxation or whatever, the debate that needs to be had. Therefore, it is important that we look closely at what we are spending the money on in the next six to nine months. We should extend furlough, or possibly introduce model 3 of furlough, but we should focus it on the sectors that really need it. The UK Government will have to make that decision, and I hope that it will be influenced by the Scottish Government's view in making it.

As Mairi Spowage mentioned, Scotland was behind the curve, pre-pandemic. Although we might get more per capita spend through Barnett, Scotland needs that just now and over the next one or two years. It is important that we continue to phase the support, but we need to be quite clear about when we are going to withdraw it, so that when businesses open and begin to trade, its withdrawal is viable. That may mean not giving it to everyone who is getting it now.

**The Convener:** Thank you. I thank both witnesses for their evidence—it has been gratefully received.

I will suspend the meeting for five minutes for a changeover of witnesses. We will recommence about 10.41. I will indicate in the chat bar when we are ready to restart.

10:35

*Meeting suspended.*

10:41

*On resuming—*

**The Convener:** I welcome the second panel to the meeting and thank the witnesses for their written submissions. Rozanne Foyer is general secretary of the Scottish Trades Union Congress;

Councillor Gail Macgregor is resources spokesperson at the Convention of Scottish Local Authorities; and Eileen Rowand is chair of the local government directors of finance section of the Chartered Institute of Public Finance and Accountancy. The plan is to go straight to questions.

**Murdo Fraser:** Good morning to our witnesses.

I have a couple of questions for Councillor Macgregor of COSLA. To save time, I will ask both questions together. Maybe the answers can be rolled up into one.

First, in the proposed local government settlement, there is a modest increase of 0.9 per cent in the revenue core budget and there is no increase in the capital core budget. I am sure that local councils welcome the fact that there is some increase but, in practical terms, what will the impact of that be, given that cost pressures have continued to rise? Will the settlement mean that councils will have more money to spend, or will it mean having to make cutbacks? Perhaps you can give us a sense of what that will mean for the average council budget in practice.

My second question, which is in connection with the issue of the proposed council tax freeze, is related to that. The Scottish Government has proposed £90 million for local councils, which would be equivalent to a 3 per cent rise in the council tax, if councils agree to freeze the council tax for the coming year. What is your take on that and what its impact will be on council budgets?

**Councillor Gail Macgregor (Convention of Scottish Local Authorities):** Those are very good questions. When we heard the Cabinet Secretary for Finance's announcement on Thursday, the budget seemed very good on the surface. Obviously, an additional half a billion pounds for councils to spend is very welcome. However, when we start to cut down through the details, we claw back to having only an additional £95 million, which represents 0.9 per cent of the budget. It is clear that that falls very short of COSLA's asks.

As committee members will appreciate, we have dealt with cuts to budgets for a number of years, so we are already starting from a much lower base. It would be fair to say that we have seen increases in the Scottish budget in recent years, but we have seen decreases in local government's budget. For example, seven years ago, local government's budget represented 34 per cent of the totality of the Scottish block grant. Seven years on, it represents only 30 per cent.

We are seeing increasing declines over the years, and they are obviously having an impact on our basic core budget, which in turn has an impact on the services that we can provide.

10:45

I have a few examples. The 0.9 per cent increase to £95 million will go less than halfway towards paying for an uplift in pay. Even if we were to just match the pay policy that was announced last week, it would cost £205 million, so the £95 million will not cover even the most modest pay increases.

Obviously, we are continuing to deliver services as we have been. We still have business as usual as well as Covid pressures, so not seeing a significant increase that matches the Scottish Government's budget increase will have a massive impact on things such as developing adult social care, and on the pay negotiations, which are coming up fairly soon. It will also put enormous pressure on councils' future budgets.

On council tax, it is slightly frustrating that, again, a 0.9 per cent or £90 million figure in an £11.6 billion budget made the headlines last week rather than the actual services that we provide to our communities. COSLA's long-held view is that there should not be a cap on council tax; it is absolutely a local tax.

The suggestion of compensation for councils is a political one, and that is a decision that Ms Forbes has made. Council leaders will find it difficult not to take that compensation and impose a freeze, but it is fair to say that leaders understand their communities and the pressures on households at the moment, and would probably have applied fair prudence anyway. Our position would be that, if there is £90 million, will it be sufficient to cover the shortfall? If it is not sufficient, we will need to go back to the Government and ask for more. Is it baselined into the budget? If we do not put council tax up this year, it keeps the baseline artificially low, which means that we might need to double it to 6 per cent next year, which would also have an impact on households.

I cannot imagine the finance secretary being overly enamoured of the UK Government if it tried to interfere in Scottish income tax policy. The council tax is very much a local tax and it should have been left to council leaders to make that decision. If there was additional funding to cover it, it should have been in our basic settlement in the first instance instead of in a £90 million headline figure, which was very political.

**Murdo Fraser:** That answer covers a wide range of topics, and I am sure that other members will want to pursue some of the issues further. I would like to follow up specifically on the subject of public sector pay policy and bring in Rozanne Foyer before I go back to Gail. Given what Councillor Macgregor has said, what is the STUC's view of the Scottish Government's overall

approach to pay policy and the question of affordability for local government staff within the settlement that is being offered in the budget?

**Rozanne Foyer (Scottish Trades Union Congress):** To answer the second part of your question first, I have to say that we share COSLA's concerns that the envelope that has been given to local government, which needs to be able to cover the forthcoming pay negotiations, falls far short of our affiliates' aspirations in those negotiations. The fact that it falls far short of the benchmark that the Government has set in its own pay policy means that there will be real problems with the negotiations.

We must remember that local government workers have been key to protecting our society throughout the lockdown. Many of them, not least those who work in the social care sector, are on very poor rates of pay. I may say more about the social care sector later, because there is a particular case for looking at the pay levels of social care workers and recognising their particular skill set in light of the pandemic, and sorting out what has been for a long time a systemic inequality in pay structures and how that particular area of work is valued.

When we consider the public sector pay policy overall, the one aspect of it that we welcome is the fact that the weighting favours low-paid workers. However, it does not go far enough. Of the money that is set out, at least 3 per cent is for those earning under £25,000, which the £750 weighting delivers.

However, we have to remember how many public sector workers earn between £25,000 and £36,000. In that area are social workers, nurses and primary teachers—a whole range of skilled professionals who have been working extremely hard and going above and beyond throughout this pandemic.

We need to remember that, for all the talk from the Scottish Government about the need to ensure that we put money into public sector workers' pockets as an economic stimulus mechanism and that it does not agree with the UK Government's pay freeze—which we fully welcome—this policy fails to deliver on that when we start to consider the number of workers who will not see much of a pay rise at all.

Around half of essential workers in Scotland have a partner who is a non-essential worker. We are talking about families that have been going through months where partners have lost their jobs or are on 80 per cent of their pay on furlough schemes. Families are trying to be resilient and get through a whole range of economic harms during this period—lower-paid workers in particular.

Considering the number of key and essential workers who are on low pay, this was an opportunity for the Scottish Government to do something quite significant to support working families and ensure that we put some liquidity into working-class communities through public sector pay policy. It has failed to do that.

**Murdo Fraser:** I will quickly go back to Councillor Macgregor. You have heard what the STUC has just said. I do not want to undermine your pay negotiations with the trade unions in any way, but perhaps you could say how challenging you think that it will be for local councils and COSLA to reach agreement on this, given the overall settlement and the requests from the STUC for more pay for council staff?

**Councillor Macgregor:** I echo the points made about the tremendous work that our workforce has done during the past year. They have been absolutely pivotal in our communities, and much credit goes to them. They have picked up the bat and run every single time that we have asked them to, and are continuing to do so in relation to business grants, home care and the like. We cannot undervalue our local government staff.

As you said, I am about to enter some quite sensitive pay negotiations at a time in which the workforce is feeling a bit wearied and underappreciated. That is going to make things incredibly challenging when we only have a 0.9 per cent uplift in our own budget.

Key for us is that our workforce is disproportionately in that £25,000 or below bracket. That will have a disproportionate impact on budgets set aside for pay, and we will have to consider that. We have a policy of parity at the moment, and that splits us away from that policy, in which all members of the workforce should get the same.

We all completely understand the need to give higher rewards to those on the lower end of the pay scale; there is no question of that. The uplift in the living wage will help with that as well. However, the challenge will be that for every 1 per cent award that we give, it will cost in the region of £90 million, and the Scottish Government's public pay policy alone will cost £205 million.

To enable us to reach a reasonable settlement with the unions, we will need to see an increase in our core budget. Without that additional funding, to give them a decent reward will impact on other areas of the council and potentially result in cuts to services.

We do not want to lose crucial services in our communities and, as Roz Foyer said, there is an impact on our economy when people are employed and able to spend, so the last thing that we want to see is job losses. However, the reality

is that if we do not get sufficient funding to cover a reasonable pay award, we will be looking at either cuts to services or cutbacks in staff, which would be a shame.

**Fulton MacGregor:** Before I start, I declare an interest in that I was previously a local authority councillor in North Lanarkshire and a social worker in South Lanarkshire.

My first question is a general one. We know that the past year has been like no other and that, in many ways, the form book has been thrown out the window. Has any analysis been done of the overall impact on councils? Many services, such as gyms and swimming pools, have not run and many staff have been on furlough. A lot of support has been provided for businesses, which councils have administered, although the money has come directly from the Scottish Government. That is one side of the equation. On the other side, new services have been needed, an emergency response has been needed and there has been an obvious loss of income. How does that balance out? Have councils done any analysis of that yet? There will have been savings in some areas and extra costs in others, so what does the overall picture look like?

Those questions are directed to Councillor Macgregor in the first instance—by the way, it sounds really weird saying that, because I used to be Councillor MacGregor, too.

**Councillor Macgregor:** I will defer to Eileen Rowand, because she is absolutely at the coalface of that in working on the figures for the impact on councils.

**Eileen Rowand (Chartered Institute of Public Finance and Accountancy):** Back in September and October, we did a cost collection exercise. At that point, we anticipated that the impact of Covid in the current financial year would be £767 million. That forecast was based on our getting back to normal a little, but that has not happened, so I anticipate that the costs will increase significantly. I say "costs", but it is not just about costs—we anticipate that roughly half of the impact will be the result of a loss of income. Therefore, there has been a significant impact.

There have been savings, but those have been around the margins. Initially, we saved on things such as travel and energy, although, with the schools reopening, that became an area of pressure. The situation has been challenging for councils. Funding of around £400,000 was announced to deal with that, but that left a significant gap. Obviously, councils have been exploring a number of means by which they can address that gap. However, we are still not in a balanced position in that regard.

That is the financial position. The impact on services has been vast. There have been real pressures on things such as home care, homelessness services and trading standards staff. We have set up community hubs and have provided support with food. Environmental officers have been under severe pressure. We have worked closely with Business Gateway to provide support to businesses. Obviously, significant work has been done in schools, and there has been a lot of pressure on—[*Inaudible.*]

**The Convener:** We have lost Eileen Rowand. If she comes back, we will let her finish, but do you have another question, Fulton?

**Fulton MacGregor:** I actually have a few other lines of questioning, if that is okay.

**The Convener:** When you say “a few other”, do you mean that you have two or three more questions?

**Fulton MacGregor:** I have a couple of further questions, convener, but that is obviously at your discretion.

**The Convener:** If you have a couple of questions, that is fine—on you go.

**Fulton MacGregor:** Thank you, convener.

I got the gist of Eileen Rowand’s response. It was helpful of her to put the situation in context, because people are thinking about how the pandemic has impacted on councils and other bodies. I put on record my personal thanks to council workers in North Lanarkshire, who have been absolutely fantastic during the pandemic.

11:00

I want to ask about two areas in which there is support from the Scottish Government to make up some of the shortfall in funding. One is the £90 million for council tax, which has already been mentioned, and the other is the £200 million for loss of income as a result of the pandemic.

I will direct my questions to Councillor Macgregor this time, if Eileen Rowand is still offline.

Do you think that those funds are sufficient? You have already commented on the £90 million for council tax, which you feel was a political decision. Leaving that aside, do you think that councils are likely to take up that support in order to protect their communities?

In addition, how do you think that the £200 million might link in with a possible bounce-back if the economy recovers? What I mean by that is that more folk might start going to the gym or using other leisure facilities because they have not been able to do so for a year, or people might start

putting in planning applications that they have, so far, not been able to progress. Those are basic examples—I apologise for that. Can I get some thoughts on that line of questioning?

**Councillor Macgregor:** Yes—that is not a problem.

In respect of the £90 million, we are doing some work with the 32 councils to establish what their individual council figures would be for covering their proportion of applying a council tax freeze. If the cost goes north of £90 million, I would expect the cabinet secretary to put some additional funding on the table to cover that, but, as I said in my answer to Murdo Fraser, that would require to be baselined into this year’s budget so that it does not have an impact on next year.

On whether councils are going to take up the support, I will not pre-empt what 32 council leaders are planning to do—that is more than my job is worth. Nonetheless, I know that they truly understand the pressures on individual households in our communities. Although we have the council tax reduction scheme, at present—as you will appreciate—an awful lot of people are just above the limit, so the scheme does not apply to them, but they are still facing household pressures. It will be down to each individual council to determine—with regard to its individual circumstances, where it is sitting with reserves, and so on—whether it will take up the support. Politically, it would be very difficult for councils not to take it up, because it has been announced that the Government will cover a shortfall if we apply a freeze. The big question is whether the funding will be sufficient.

On the funding for loss of income, we are still in the region of £120 million short of what we know is our current total loss of income for this financial year. We are still short of the loss being fully funded, and leaders have been clear that I have to go back to the cabinet secretary and have further discussions with her on lifting that figure higher. There is no question but that the £110 million extra is very welcome, but it still falls short of the absolute loss-of-income figure that we believe will apply.

As you will appreciate, when we were doing the cost collection and loss-of-income exercises last year, we thought that we would be further through the route map than we currently are. It is February, and our community centres and leisure centres have not reopened, and people are not parking in the centre of Edinburgh and getting a parking ticket. The loss of all those incomes is not lifting yet, and we do not know where we will be in a few months’ time.

On your point about economic recovery and what happens when individuals are released back

out into the community and want to go to gyms and use facilities, that will make councils focus on what communities really need. When we reopen and get those facilities up and running, we must ensure that we have appropriate staffing and services for our communities.

We are not quite sure where we are going to be in a few months' time, but we will keep tracking the situation and discussing it with the Government.

**Fulton MacGregor:** Thank you. That was very helpful.

I will finish with one final area of questioning, because I am conscious of the time. I would like some comments on two specific issues: the £59 million for expansion of childcare and the £72.6 million for health and social care. How has that money been received at a local authority level? Are there any gaps or are those good settlements? In addition, how much of that money may be required to be spent on the workforce in each sector, which we have already heard a wee bit about? I know that you are in negotiations just now and cannot comment too much, but I think that we would all agree that the social care workforce and other workers deserve a pay increase.

**Councillor Macgregor:** If Eileen is back online, I think it would be best if she answered those questions.

**The Convener:** I think that she is back online.

**Eileen Rowand:** Apologies for that.

The £59 million is for the expansion of childcare, which is a commitment that has been made. Although it is additional funding, the costs are therefore already committed. The £72 million for social care also relates to specifics such as the living wage, full implementation of the Carers (Scotland) Act 2016 and the uprating of free personal care. Those sums of money are welcome. However, there are nonetheless real pressures when you look at the demand pressures in social care and the need to move people out of a hospital setting and have more care at home. We would obviously therefore be looking for further funding for those areas. As Gail Macgregor said, when you look at this in the context of there not being enough funding to cover the pay policy, it will be really challenging for councils next year.

**Rozanne Foyer:** We are concerned about the social care workforce and the budgetary projections that have been set out for them in the draft budget. The Scottish Government has made a commitment to look at a national care service. We are awaiting the outcome of the Feeley review of that, and we have already had the report of the Fair Work Convention, which showed that there is a need to look at better pay, standards and

training, and to look at fair work as a key issue right across the care sector.

We have a range of aspirations for social care workers, including sectoral collective bargaining and pay that properly recognises the highly skilled work that they do. This budget does nothing in relation to planning any spending on any of that. Given that the Government has made a lot of big promises about looking at social care and valuing that workforce, that gives us real cause for concern. The reality of this budget does not match the rhetoric around social care. We want to see more investment in making provision for a significant settlement for social care workers so that we can start to change how social care works in Scotland.

**Patrick Harvie:** Good morning to our witnesses.

During the previous evidence session, I cited the figure of £2,000 in relation to the public sector pay policy. However, I had followed the link to the previous year's policy. I therefore want to correct that for the record.

I will put the same questions that I put to the first panel around the progressivity or otherwise of this budget. We know that the economic impact of Covid has been unequal. People with the lowest incomes, precarious incomes and insecure housing have suffered the most. There are other people whose incomes have been protected and whose expenditure has gone down. Given that unequal impact, there is a case for using the budget to redistribute some of the impact and achieve a more progressive outcome.

Mairi Spowage from the Fraser of Allander institute struggled to identify anything in the budget that would achieve that kind of progressive outcome, compared with relatively minor things that move us away from progressivity such as the council tax freeze, income tax thresholds and public sector pay policy.

Rozanne Foyer, is there anything, not enough or nothing at all in the budget on progressivity and trying to redistribute some of the economic impact of Covid that has already been felt?

**Rozanne Foyer:** Thank you for putting that question to me. We have strong opinions on the issue, as you can imagine. We are concerned that the distribution in the budget is quite regressive. Scotland had a deep poverty pandemic even before the coronavirus hit us. Symptoms of that include the highest drugs death rate in Europe, a record level of in-work poverty and an exceptionally high level of child poverty. Those areas require urgent attention in order to reduce the inequalities in our society, but we see little in the budget that will start to do that.

I mentioned that there is some weighting in the pay policy that ups the pay of the lowest-paid workers. We give credit where it is due for that, but it is not enough. There is the right rhetoric and it is going in the right direction, but it is not enough to make a significant difference to people's pockets.

The council tax freeze is very concerning. Not only does it undermine local authorities' ability to act in the way that is necessary for their local communities and to have the autonomy to make their own decisions on the taxes that they raise; it does not help the very lowest-paid people in those communities, who are already covered by measures that reduce their council tax. Introducing what is, in effect, a tax break for higher earners is completely out of step with the Scottish Government's stated priorities for an inclusive economy.

On the tax breaks for businesses and the business rates, we agree that we have to save jobs and do everything that we can to protect businesses and help them to get through this situation, but we question whether a blanket tax break for all businesses is the type of support that will result in the best outcomes. As Patrick Harvie correctly stated, some businesses are doing well during the pandemic, so we should question whether they need additional support at this time.

We want tax to be used more as a tool to support fair work and create the social changes that the Scottish Government tells us it is committed to. If Scotland is to be a world leader on fair work, we have to start using taxation policy to influence employers to behave better, and we need fair work tax supplements and to connect our support to the right businesses. It is not about creating jobs at any cost or creating just any type of job; we need good, sustainable jobs that have good pay and conditions.

During the pandemic, we have learned that bad work kills. Having a job that has no sick pay attached to it, that has bad terms and conditions of employment or that is precarious is one of the reasons why people find it hard to follow some of the restrictions that are in place to save lives and protect us all from the virus. Serious problems in our economy have been highlighted by the pandemic, and we should use our taxation policy and support for businesses to influence the quality of work that is available to individuals. We should be giving better rewards to better employers—it is as simple as that.

**Patrick Harvie:** Is the STUC promoting any specific changes, such as looking at how much could be saved by targeting the non-domestic rates changes to those who genuinely need support instead of it being a blanket measure, or not pursuing the council tax freeze? Is there a costed proposal for a different way, whether it is a

more progressive pay policy or any of the other things that you have mentioned?

11:15

**Rozanne Foyer:** There is an outlay of £185 million for business rates. Also, I think that the Fraser of Allander institute said that the £500 million in the budget is a very conservative estimate of what might come back from the UK budget, so we expect that significantly more money will come the Scottish Government's way once the UK budget comes out. There will be a need for further support, and we certainly hope that the UK will give that.

At that point, we would like the Scottish Government to look again at the public sector pay settlement. More than half of public sector workers are women and, as we heard from COSLA, we are also talking about some very low-paid workers. All the evidence shows that, when we put money in the pockets of low-paid workers and women workers, they go out and spend it on their families and in their local communities. That helps to kick-start the economy and it means that we grow the economy and build wealth in communities.

Our view is that putting that sort of investment into public sector pay can have a very good economic impact, which we really need in order to get things moving. We have costed, and I think that the Scottish Parliament information centre has confirmed, that each additional 1 per cent of pay would be about £150 million. That provides food for thought. If we are going to recoup the £185 million, there should be a serious look at upping the public sector pay settlement and putting money into the pockets of lower-paid, hard-working families at this crucial time.

**Patrick Harvie:** I put the same question about progressivity to Gail Macgregor, and I ask her to focus on the council tax issue in particular. Ninety million pounds is allocated to achieve a council tax freeze in the coming financial year. Does that mean that it is fully funded? Is £90 million enough to match the immediate hit that councils will take to their revenues because of the freeze in that year?

Is there a longer-term danger that, in taking that approach, we will shrink the tax base such that it will be harder for councils to make up ground in subsequent years and we will lock ourselves into yet another cycle of long-term council tax freezes? From the councils' point of view, is there a better way for the resources to be used, rather than having that money saved mostly by people in very big houses?

**Councillor Macgregor:** I covered some of that earlier, but I will briefly repeat it. If £90 million is



not sufficient, we will request more, and we are gathering information on that at the moment.

The difficulty is that, if we freeze council tax this year, that will artificially reduce the tax base, which will cause problems in future years. There is a much wider discussion to be had on council tax, as you are aware. Prior to Covid, we had a working group that was looking at a replacement for council tax, but it has had to halt its work. I hope that, through our work on our fiscal framework, we will be able to bring that group back into operation and look at the longer-term sustainability of local taxation in its totality.

We are dealing with a very difficult time and we are all just trying to find solutions to get us through the pandemic. However, we need to start to do that longer-term work again in order to ensure that we have a good and robust fiscal framework for the future.

**Patrick Harvie:** My final question, which is for either witness to comment on, is about the process. We have a cart-before-the-horse process again, in which the councils set their budgets, and then the Scottish Government and then the UK Government set theirs. We will have only a very brief window of opportunity between the UK budget and the stage 3 process, which is the last chance for us to lodge amendments to the Scottish budget.

Whether we use stage 3 amendments or let the Government do in-year budget revisions might make little difference to internal Scottish Government budgeting between one department and another, but will it make a big difference for councils and other bodies that are funded by the Scottish Government? Is there a strong reason for saying that we should use the stage 3 amendment process, or would in-year budget revisions later in the year, which will take account of extra resources that are available from the UK budget, be adequate? Would any harm be caused by using that later process?

**Councillor Macgregor:** That is a really important question. The key thing is that we all appreciate the fact that we are in a different kind of budget round this year. We had a delay to the budget last year because of the general election, but the problems are very similar. The sooner that councils understand what their budgets will be in the future, the sooner they can begin to plan. Any uncertainty around budgets makes things incredibly challenging.

I get your point. We are now in the second negotiation phase. To be fair to Ms Forbes, there is a lot more information to come following the UK Government budget, and we hope that there will be an additional flow of funding to Scotland as a consequence. We hope that we will see

additionality going into local government as part of that process. We will need some in-year revisions—there is no question about that. If we can get as much stability and certainty as is possible in the current climate, and as soon as possible, that will be of benefit to councils.

Some councils may decouple their council tax from their main budget. Legally, all that we have to do is to set the council tax by 12 March, so councils could continue on their current budget process but wait until after stage 3 to finalise their budgets, as long as they set their council tax separately. However, it will be down to individual councils to make that decision.

**Patrick Harvie:** I am not sure whether Rozanne Foyer wishes to respond to my question, but it was the last one from me in any case, convener.

**The Convener:** Do you have a comment to make, Rozanne?

**Rozanne Foyer:** I agree with what has been said. The way that things are set up undoubtedly makes it harder for organisations to plan.

I was struck by the comments that were made earlier by the Fraser of Allander institute on the lack of respect for our systems. The way in which Scotland has to reach its budget is well known, and we should not be placed in a position where we have to produce a draft budget without knowing what the UK Government's budget outcomes are. I appreciate that we are in unprecedented times, but this is not the first time that we have been placed in this position. The alignment of things and the respect for devolution need to be looked into.

**The Convener:** Thank you.

Listen, folks: I am conscious of the time. It depends how many people still wish to ask questions, but I have a note of three at the moment and, if there are more, we will come up hard against the hammer, so I ask for both questions and answers to be a bit tighter, please.

Alexander Burnett is next. That was not directed particularly at you, Alexander. You always bring focus.

**Alexander Burnett:** I will try to keep this brief, anyway.

Much of the business support and funding has been channelled through local authorities. There have been a number of issues around the criteria for discretionary funds and topping them up, and there is now a lot of casework concerning people who want to appeal. All of that creates a huge amount of work for finance teams. I take this opportunity to commend council teams across Scotland and particularly in Aberdeenshire—I see a lot of correspondence from there.

Councils in England were given Covid money in a general tranche. How much harder has the drip-feeding approach in Scotland impacted on councils here, particularly on your budget planning and your teams' ability to do both things at the same time? That question is for Eileen Rowand.

**Eileen Rowand:** The way in which we have received quite a lot of the funding has been a challenge. In our submission, we refer to there being more than 30 different pots, and with those pots come different reporting requirements and bureaucracy. That has been recognised and I hope that there will be a change in approach in future. I have been in discussions with my colleagues in England and I know that they have received tranches of income that have had fewer reporting requirements.

It has been a challenge at a time when finance teams are busy trying to prepare for the budget. However, I am hopeful that that will change, and I make a personal plea to make sure that that happens.

**Alexander Burnett:** Thank you. Rozanne, from your members' feedback, how have they found administering those multiple funds while trying to contribute to the budget process?

**Rozanne Foyer:** I will keep my answer brief. A range of extra duties have been placed on local government workers, and staff teams have had to be redistributed to other areas of work very quickly. We have had a range of very fast changes to systems and work has had to be reallocated. However, workers have bent over backwards to assist with that process, and we want that to be recognised. I will leave it at that.

**Alexander Burnett:** Thank you very much. That is all from me, convener.

**John Mason:** I will start with COSLA. You have made the point—and you have made it before—that local government funding has not gone up in line with Scottish Government funding. However, that is because we have given more to the national health service, because the NHS and local government are the two big spenders. To cut to the chase, is your basic argument that we should be giving less to the NHS and more to local government?

**Councillor Macgregor:** You have asked me that question before in this committee. Absolutely not—there is no question of that.

Councils are the scaffolding that holds up health and social care. Our role in communities is about how we can prevent people from ending up in hospital and how we can ensure that people are supported so that they do not need to go into acute care. It is not about taking money from the NHS; it is about how we can assist the NHS with

the wider health goals within our community structures in order to ensure that we help our communities as best we can.

It is not about transferring the money; it is about how we all work collaboratively, under our integration joint boards and health and social care partnerships, to ensure that the money is spent in the best possible way.

**John Mason:** I accept that I have asked you that question before, so I thank you for that answer. I am sympathetic to local government; I was a councillor for 10 years. However, if you are asking for more money, it has to come from somewhere. If it is not to come from the NHS, is COSLA arguing that we should be raising taxes in Scotland in general—income tax and so on?

**Councillor Macgregor:** No. I think that less ring fencing and more flexibility around the funding that we get would help. We are restricted in what we can spend a huge chunk of our budget on. I just think that we need to keep step. If the Scottish Government has an increase in its budget, we should see an increase in our budget, but it has simply not been working in that way for a number of years now.

**John Mason:** It is interesting that you mention ring fencing, because I remember that, when I was a councillor, that was one of our bugbears as well. How would what you suggest work in practice? Is it practical? For example, the 1,140 hours for early years is a national policy. If the money for it was not ring fenced, would that let each council decide whether to provide the 1,140 hours? Similarly, we are giving grants to taxi drivers, for example, but if Dumfries gives more than Glasgow does, there would be an outcry. How do we square that?

**Councillor Macgregor:** Eileen Rowand might want to comment on that, because she deals with that local level.

**Eileen Rowand:** I will pick up on a couple of points. We are keen to deliver on national outcomes but to be given the autonomy to do that and to look at different local circumstances. That is what we are calling for—to be able to do that, but at the same time deliver on the priorities that are agreed nationally.

Going back to the previous question about relativity of budget, I note that significant health consequentials come to Scotland and that, through the process of dealing with Covid, those have picked up health and social care costs. It is important to recognise that very important council services contribute to improving the health and wellbeing of the nation and also deal with inequality, which is a foundation of the matter. I make a plea for the committee to look at the wider use of health consequentials to improve health and wellbeing.

11:30

**John Mason:** That is an interesting point. Are you arguing that, if we get £100 in health consequential, the full £100 should not necessarily go to the NHS because councils also work on health issues and, perhaps, £20 or £30 should go to pay for healthcare in that way?

**Eileen Rowand:** All that I am saying is that, if we are to improve the health of the nation, we have to improve what we are doing in housing, how we deal with homelessness, how we make sure that communities are active, what we do on environmental health and many other issues that help to improve people's health. If we look at it in that way, perhaps a proportion of the money could go to health and social care, as it does at the moment, from the health consequential. Perhaps we need to look at that issue more widely.

**John Mason:** That is helpful. My final question is for Rozanne Foyer from the STUC. I found it helpful that, when you answered Patrick Harvie, you gave some specific figures. If I understood correctly, an increase of 1 per cent in pay would cost an extra £150 million; it is good to get that information. You also mentioned investment in the care sector—care homes and so on. Do you have any equivalent figures on how much money you would be looking for for the care sector?

**Rozanne Foyer:** In relation to the care sector, it is significant to note that the money that has been allocated for the workforce is simply to implement the living wage. We are saying that a good look needs to be taken at the level of skill that is involved in care work. There is often great difficulty with recruitment in that area because, frankly, someone can get the same or better pay for doing much less difficult and responsible work. There is a real need to look at the level of pay for care workers in social care and residential care homes. That is an issue.

I do not have definite costings for that, but we are talking about a significant uplift. The GMB has mentioned a figure of £15 an hour for care workers, which gives an indication of the ball park that we are talking about; it is not simply about ensuring that such workers are all getting the living wage. That would be a significant change, but we must remember that as well as being great for the delivery of the service and the service users, and marking a step change in the way that care is done, it would have a significant economic impact on local communities.

On the question that was raised by COSLA, we need to look at extra borrowing powers for the Scottish Government. There is not enough in the budget to cover local government needs and a proper economic recovery, so if ever there was a time to make urgent arguments about extra

borrowing powers for the Scottish Government, it is now, and the STUC is highly supportive of that.

**John Mason:** I am persuaded that care home workers and so on need better pay. That means higher fees and probably a tax increase. I accept that the costings have not been done yet, but is that how the STUC, Unite and others see it? Should we be raising income tax specifically for the care sector?

**Rozanne Foyer:** At this stage, we do not have a specific policy on raising income tax for the care sector, but you are right that it will have to be paid for, and taxation will be one of the means that could be looked at to do that.

We have to think about the wider economic impact of raising standards in the care sector. It would take a burden off the NHS. Root-and-branch change is needed in the care sector. I do not want to anticipate what might come out of the Feeley report, but I think that care needs to be done in a very different way.

One thing that the STUC thinks should be taken out of the care sector is the profit element. At the moment, public money is ending up in shareholders' pockets. Every penny of public money that is spent on care should be going into and being reinvested in the provision of the services that are delivered to users and in the skills of those who deliver them.

**The Convener:** I will follow up on that. I think that everyone agrees on the need to recognise what people's proper remuneration should be. At the moment, we do not have the borrowing powers, and I assume that it will be a wee while longer before the Feeley review reports. We are talking about next year's budget. If there is a demand for extra money to meet justifiable pay rises, where would we make the changes in the budget to make that happen?

**Rozanne Foyer:** As has already been stated, the £500 million that has been set aside in the budget is seen as a conservative figure. We certainly hope that there will be more consequential on which the Scottish Government can draw down, so there should be scope to make further changes in the budget.

I agree with you that, at the moment, we do not have the borrowing powers and there could be difficult decisions to be made. However, overall, we must open up the debate with the UK Government about the need for significant levels of further investment.

One issue on which I agree with the Scottish Chambers of Commerce is that, in relation to the level of investment that is required to create the economic stimulus that kick-starts our economy, the pots of money and all that is in the Scottish

Government's gift will not be enough to make a significant difference.

I would ask the Scottish Government to work closely in partnership with the UK Government to get agreement around significant further investment. However, the Scottish Government is in charge of economic development. Therefore, it should not be about the UK Government coming in and telling us what it will invest in; the Scottish Government should be working closely with the UK Government to get additional funding, on the spending of which it can then make decisions.

If we are to have a proper, joined-up industrial strategy for rebuilding our economy, we will need more than the pots of money that the Scottish Government is able to allocate. We need to have difficult conversations about borrowing.

**The Convener:** I will continue on the theme of "difficult conversations". I accept that this is difficult, and I hear what you are saying. As far as I understand it, the £500 million is already allocated in the budget.

**Rozanne Foyer:** Yes.

**The Convener:** Are there any areas in the Scottish budget that you think should change to enable some of the other priorities to be addressed?

**Rozanne Foyer:** We would certainly ask whether the £90 million that is being spent on a council tax freeze and the £50 million that it is estimated it will cost to give what is, in effect, a tax break for higher earners could be better spent elsewhere.

There are a number of areas in which we would question the spending. We would probably question whether a blanket rates rebate approach is the right one. Does there need to be an assessment of who needs it more than others, with those who do not need it not getting it? Savings could be created in a number of areas that would be better invested in, for example, public sector pay.

**The Convener:** Okay—that is helpful.

I call Jackie Kelly. Jackie? I meant James Kelly. Sorry about that, James.

**James Kelly:** You just about renamed me, convener.

I have two questions, the first of which is for Rozanne Foyer. In your submission, you make the case that the £500 that will be paid to NHS staff should be extended to all key public sector workers. Will you give the committee a flavour of the hardship that some of workers you represent have experienced during the pandemic, to give merit to your demand?

**Rozanne Foyer:** I am happy to do so.

We have a range of members who were not included in the £500 payment but who carry out jobs that require them to interface with the public or to look after people day in, day out. I cannot explain how much that has affected morale in a great many cases.

Let us take the example of refuse collectors. They have had to face many health and safety issues, but they have to be out working, as they do an essential task. They are not on great levels of pay, and, more importantly, in their family unit, around half of our essential workers have partners who are in non-essential work with grave levels of job insecurity. If essential workers happen to have a partner in the hospitality industry, for example, it is highly likely that they will have lost their job or, if they were lucky, spent several months on a furlough scheme below the minimum wage. That is having a massive effect on people's ability to pay their bills, including fuel bills during a difficult winter. All those things mount up for our members and create poor conditions.

As I said before, Scotland already had a poverty pandemic and difficult conditions for working-class communities to live and work in. Those things have a huge impact, which is why we are making the economic case that a significant public sector pay settlement is important. The £500 payment to health and social care workers was welcome, but there are many workers who have been putting themselves and their families at risk day in, day out. They have been going above and beyond what their job description asks them to do. For those workers, the palpable feeling of being forgotten about cannot be underestimated. The payment created an expectation among those workers that they would at least get a significant pay settlement, but, looking at the budget projections, it does not seem that they will.

**James Kelly:** Those points are well made.

I want to ask Gail Macgregor about housing. In the previous session, we heard concerns about cuts to the housing budget. Given what you said at the start about your worries about the overall local government settlement, what does that mean for housing? There are real pressures on social housing waiting lists, which is an area of concern for a lot of communities.

**Councillor Macgregor:** I think that Eileen Rowand would be the best person to answer that question.

**Eileen Rowand:** I do not have the details here on the reductions to housing, but I know that there have been reductions—not in the local government budget but in the departmental budget.

I go back to my previous comments about how we deal with inequality and poverty. Housing is obviously an area that we need to invest in, so it is important that we continue to do so. However, I do not have the detail on that, as I said, because my focus has been on the local government budget.

**The Convener:** Nobody else has indicated that they want to speak, so I thank all three witnesses for their evidence, which has been good.

Next week, we will hear from the Scottish Fiscal Commission and Kate Forbes, the Cabinet Secretary for Finance, which will give us an opportunity to discuss some of the issues that were raised today and during our previous evidence session with Kate Forbes and the OBR.

As there are no further items on our agenda, I wish everyone a good day.

*Meeting closed at 11:44.*



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