



OFFICIAL REPORT  
AITHISG OIFIGEIL

DRAFT

# Finance and Public Administration Committee

Tuesday 8 March 2022

Session 6



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**FINANCE AND PUBLIC ADMINISTRATION COMMITTEE**  
**9<sup>th</sup> Meeting 2022, Session 6**

**CONVENER**

\*Kenneth Gibson (Cunninghame North) (SNP)

**DEPUTY CONVENER**

\*Daniel Johnson (Edinburgh Southern) (Lab)

**COMMITTEE MEMBERS**

\*Ross Greer (West Scotland) (Green)

\*Douglas Lumsden (North East Scotland) (Con)

\*John Mason (Glasgow Shettleston) (SNP)

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

\*Michelle Thomson (Falkirk East) (SNP)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Tom Arthur (Minister for Public Finance, Planning and Community Wealth)

Niall Caldwell (Scottish Government)

Emma Congreve (Fraser of Allander Institute)

Professor David Heald (University of Glasgow)

Scott Mackay (Scottish Government)

**CLERK TO THE COMMITTEE**

Joanne McNaughton

**LOCATION**

The Robert Burns Room (CR1)



# Scottish Parliament

## Finance and Public Administration Committee

Tuesday 8 March 2022

[The Convener opened the meeting at 09:45]

### Resource Spending Review Framework

**The Convener (Kenneth Gibson):** Good morning, and welcome to the ninth meeting in 2022 of the Finance and Public Administration Committee. The first item on our agenda is our final evidence session on the Scottish Government's resource spending review framework.

I welcome to the committee Emma Congreve, knowledge exchange fellow at the Fraser of Allander Institute, and David Heald, professor of public sector accounting at the University of Glasgow's Adam Smith business school.

We will move straight to questions. Professor Heald, in your written submission, you say that the focus should be on enhancing

"the efficiency of public services ... Improving relationships with local authorities"

and

"Ensuring that ... financial plans are fiscally sustainable in light of the COVID-19 legacy and the demographic challenges".

What does the Scottish Government need to do to enhance the efficiency of our public services?

**Professor David Heald (University of Glasgow):** That is a very big question, so I will obviously not be able to say everything that I would like to say about it in a brief response. I commend the Scottish Government for wanting to run a multiyear budgeting system. It is pretty obvious that, if public bodies, the national health service, local authorities and private and voluntary sector providers to those bodies are not given sufficient warning of the funding that will be available, inefficiencies will be built into the system.

The most important issue in the context of the committee's inquiry is going back to multiyear budgeting. To a large extent, that has not been possible in recent years because of the timing of the United Kingdom Government's spending reviews. In relation to giving certainty, my view is that people find it much easier to adjust to slightly lower spending totals if they know what the year 2

and year 3 numbers will be. That is by far the most important message.

When I was doing background reading for today's meeting, I realised that, internationally, a "spending review" has a somewhat different meaning from the one that I attach to it. I very much think of spending reviews as being the Treasury's periodic multiyear spending plans. It is preferable for such reviews to be done towards the beginning of a parliamentary session, so that the public expenditure environment for that period is set out. However, the European Commission and the Organisation for Economic Co-operation and Development seem to use the term "spending review" in relation to analytical work on priorities and on the efficiency of existing programmes in order to try to make savings and refocus expenditure.

What worries me about the spending review that we are talking about is that there seems to be an incredibly short timescale. The deadline for public evidence is 27 March, and the spending review will be published in May. UK Treasury spending reviews take between six months and a year. It is quite difficult to do analytical work on a very short timescale, so I hope that, behind the scenes, the Scottish Government is already doing a lot of the analytical work that will feed into the spending review.

**The Convener:** I certainly hope so. I would be surprised if that was not the case.

In your submission, you say:

"The framework document never misses an opportunity to complain about financial constraints, as if these were wholly attributable to present funding arrangements. This tone diverts attention from constraints which might plausibly be relaxed."

I quite like that phrase. What kind of constraints are you talking about? Do they relate to local government, for example? Where could constraints be relaxed?

**Professor Heald:** In relation to what can be relaxed, having a multiyear spending review would make things much more straightforward for the devolved Administrations.

On the specifics, I do not want to get too involved in fiscal framework issues, but it is clear that resource borrowing powers and the rules about the reserve are not appropriate, given the level of volatility in tax revenues. I have made the point in print several times that, after the Smith commission, the Scottish Parliament traded substantial certainty about what funds would become available for tax discretion.

Despite the fact that Scotland has marginally higher income tax than the rest of the UK, tax revenues have come in below the block grant

adjustment. There is a clear argument that there ought to be more resource borrowing powers and carry-forward. That is obviously linked to the reserve. There are negotiable things there that are achievable.

**The Convener:** That is well put. Last week, John Mason pointed out that the University of Glasgow has got more in its reserve than the Scottish Government is permitted to keep in its reserve.

Emma Congreve, what is your view on the points that have been raised so far?

**Emma Congreve (Fraser of Allander Institute):** On the first question, Professor Heald made some important points about the analysis. When I read through the framework document, I was struck that there is not much discussion of how the analysis that will underpin the spending review will happen. Although I am sure that there is a lot happening behind the scenes, it is really important that the analysis and the evidence are transparent and understood by all of us on the outside, that they are not being done in a back room and that they are replicable.

There is the analysis of additional spend that may be decided upon during the spending review process, but there will have to be reprioritisation of spend. It is as important to understand the impact of removing spend from certain areas of the budget, or having real-terms cuts to areas of the budget, as it is to understand the impact of new spend. This is a review of spending in Scotland and it is really important that all of that comes together. I am not confident, from the framework document, that that will be done, and that it will be published and understandable to those of us who are scrutinising this type of evidence.

The framework talks about transparency and how the Government wants the process to be transparent. However, I feel that we may need a bit more on the evidence that underlies those decisions than will be forthcoming from the spending review process. Part of that will come down to the fact that there may not have been time to do this in the way that we would hope that it would be done.

My colleagues at the Fraser of Allander have talked previously about some of the issues with the fiscal framework and the borrowing rules. Thinking about the reserve is another part of that, and I agree that there will be a need to think about those issues in the negotiation of the future of the fiscal framework.

**The Convener:** You talked about reprioritisation and removal of existing expenditure. Are there any areas where you think that that should be prioritised?

**Emma Congreve:** Fraser of Allander does not put forward particular positions on policies.

**The Convener:** I knew it—okay, right.

**Emma Congreve:** We are very clear that we want to see consistency. We want to see what the Government is saying that it wants to do come through in budget lines, so that the links between the two are clear. Some of the priorities, for example child poverty and climate change, are clear in the spending review framework document. There may be disagreement on whether those are the right things, but that is not what I will cover. It is more that child poverty and climate change represent priorities that are spoken about in many other Government documents; indeed, they are in legislative targets. If we see that level of prioritisation being followed through and are able to link it to budget lines and can say how much has been allocated to tackling climate change or child poverty, that will be a step forward in transparency.

You will recall from last week's evidence that having less money go into an area—such as higher education, for example—has implications, and might result in unintended consequences that may count against areas such as tackling child poverty. It is important to understand all those linkages. Policies usually go through a standard appraisal process and various impact assessments in order to work all that out. We would expect the Government to be doing that. We do not necessarily have particular views on what the money should or should not be spent on, but we are quite keen on seeing consistency across the piece.

**The Convener:** No one ever tells us where we should disinvest; people only ever tell us where we should spend additional money. Then, when the Scottish Government says what it thinks money should be spent on, people criticise its expenditure priorities, despite the fact that no one ever says what the money should not be spent on.

Professor Heald, do you want to have a go at that? Should we disinvest in one area and invest more in another?

**Professor Heald:** The important issue now is that Parliament has been going for more than 20 years. There was a lot of money around in the first decade of devolution. The Northern Ireland Fiscal Council has done a helpful analysis of where Northern Ireland spends above parity with the mainland and where it spends below parity with the mainland. There are very few instances of the latter.

In the 2000s, and to some extent because of English priorities on education and health, the Scottish Parliament was getting a lot of extra money. The above-parity spend in Scotland is

quite high. Those priorities are not necessarily wrong, but they divert spending from other programmes because there are no Barnett consequentialists coming in respect of some of those programmes.

This is the time when Scotland should take stock of where it is. One thing that I would like to see in the spending review is serious data on what the future spend on the above-parity programmes will be in the next five or 10 years.

There are some examples. Scotland has no student fees or prescription charges. It has no bridge tolls or hospital parking charges. I am not making any arguments around any of those; I am saying that we ought to know how much they cost on a consistent basis, so that we can see the extent to which we will have to divert Barnett consequentialists to such programmes in future.

It is time to take stock. That goes back to my earlier point. The timescale seems incredibly tight for such an exercise, but the committee should be asking for that, even if it is not part of the spending review.

**The Convener:** The Scottish child payment would be another obvious example, as would some of the reserved areas that the Scottish Government mitigates, such as the bedroom tax.

I will move on a wee bit before I bring colleagues in. In your submission, Professor Heald, you talk about UK public finances being “unsustainable on present policies” and about how

“tax measures, such as the health and social care levy, add to inefficiencies and inequities rather than resolving them”.

That clearly has an impact on what happens here. How do we get round that with this review? What can we do as a Parliament, given the bigger picture of UK finances?

**Professor Heald:** There is a limit to what can be done. This is outside the executive powers of the Scottish Parliament, but the UK desperately needs to have a serious discussion about tax. The Mirlees review, which was organised by the Institute for Fiscal Studies in 2011, tried that, but it fell on fallow ground. Austerity dominated that decade.

The interaction of national insurance contributions with income tax creates totally perverse incentives. The UK as a whole needs to think about how big it wants the public sector to be and then show willingness to raise the tax revenue to fund whatever level that is.

10:00

One of the difficulties with Scottish income tax is the issue of the interaction with the higher income tax threshold in England and the national

insurance higher limit, after which national insurance goes down. There are completely perverse consequences around what I regard as a very sensitive part of the income distribution. One thing that we are learning about Scottish income tax is that Scotland depends very much on basic rate taxpayers and on the lower part of the higher rate tax band, as we do not have a lot of people on very high incomes paying the Scottish top rate.

The national insurance levy is simply a way, which was pioneered by Gordon Brown in the 2000s, of having a tax that is not called a tax. Strangely, it seems to be seen as better public relations, but it actually creates all sorts of complications. Within the devolved settlement, there are obviously relationships between what the UK Government does and what the Scottish Government does. However, I make the point in my written submission that national insurance contributions were completely the wrong instrument. I can understand that the Treasury wanted to send out a message that we cannot have higher public spending forever without having higher taxes, and I approve of that message, but that tax was the wrong tax. The circumstances that have arisen since then, with the growing inflation risk and specific issues about energy, have strengthened my view on that.

**The Convener:** I think that national insurance is perceived more favourably because people think of it in relation to the old stamp, whereby the money went directly towards their pensions or whatever.

**Professor Heald:** We all say that we are in favour of transparency, but it makes me worried when we exploit public ignorance.

**The Convener:** Yes—I understand that. That is a good way of putting it.

I will ask Emma Congreve a question and then ask Professor Heald to wind up on it. After that, we will move on to questions from colleagues around the table.

Emma, Professor Heald says in his submission:

“An important feature of the 1999 devolved fiscal settlement was the relatively clear distinction between functional expenditure which was devolved and that which was reserved. The aftermath of Brexit is blurring this distinction”.

He says that that

“weakens lines of accountability”.

Do you agree?

**Emma Congreve:** It certainly feels like more of a grey area now, in some cases, than was previously the case. I suppose it is difficult to know the extent of the threat at present, because the pockets that have bubbled up over the past few

years have been relatively small. There have been city deals, which have had funding from both the UK and Scottish Governments. Since Brexit, as Professor Heald says, there have been changes to the way that some of the funding is distributed, with money coming directly from Westminster.

Part of the problem is that it becomes very political very quickly when we start to look at this. We need to understand the scale of the issue and the amount of money that is involved, and to keep it in context in that way.

We already have a very confusing state of affairs, given the way that the fiscal framework operates, the way that budgets operate, and the reserved and devolved spend. There are grey areas in the social security world, given what the Scottish Government can do on devolved policy and the spillovers into reserved areas. It has become a lot more complicated, and the move to more direct funding from Westminster to Scotland is adding to that. All of that threatens our being able to understand comprehensively where all the money is coming from, and all the implications of Scottish Government decisions on spending in Scotland.

It is an issue. I am not entirely sure whether there is an answer to how to make it simpler. We just have to find our way through the matter and understand that many of the decisions will have a political angle to them. We have to understand it from a fiscal perspective rather than getting too caught up in the politics of the matter.

**The Convener:** I will resist the temptation to try to provide an answer myself.

Professor Heald, you say in the same paragraph that the situation encourages

“games of credit claiming and blame shifting”

and

“makes it more difficult for the Scottish Government to set priorities”.

**Professor Heald:** Yes. My political position is quite clear. I have always strongly supported devolution. The division between reserved and devolved matters was sensible and blurring the distinction is not a good idea politically or in terms of accountability.

The other point is that English local government has been plagued by being part of a bidding culture. Basically, the block grant gets taken away and local authorities have to bid for lots of different parts. On a practical level, the structure of 32 Scottish local authorities does not fit well into some of the bidding. The problems that we have in Scotland are not confined within a particular local authority area. There are jokes about putting union jacks everywhere rather than European Union

flags, but the situation makes it much more difficult for the Scottish Government to articulate clear priorities within the devolved areas and be held accountable for them because there will be other pots of money.

Bidding processes are expensive. The costs of them are often completely submerged but there are opportunity costs in diverting attention away from public bodies’ core activities.

**Liz Smith (Mid Scotland and Fife) (Con):** I will stay on the same theme, Professor Heald. It is an interesting debate whether, from a philosophical angle, devolved and reserved matters should remain separate or whether there is an economic case to have a slight blurring to boost expenditure. In paragraph 10 of your submission, you say that such a blurring can affect transparency because it is not so easy to see where the money is being spent and, more importantly, how well it is being used. You mention “blame shifting” or “credit claiming” and say that it becomes too much of a political matter. Is there a philosophical argument for keeping reserved and devolved matters entirely separate?

**Professor Heald:** Yes. One of the great strengths of the 1998 settlement, which was not generally recognised, was that clear division of responsibility. In federal countries, there is often big conflict between the federal Government and the state or provincial Government because of such issues. For example, the Spanish Government can spend in Barcelona and the Canadian Government can spend in Toronto, and that causes intergovernmental conflict.

I resist the argument that you are getting more money. The Treasury starts by having a spending envelope at the top so, if the money gets siphoned off into programmes for spending across the devolved nations, it will basically come off the total that we get from the Barnett formula. The Treasury sets a total limit, so it looks like extra money for the people who receive or bid for it, but there will be less money for the devolved Administrations because less money will come through the Barnett channel.

**Liz Smith:** Is there then a case for revising the Barnett formula?

**Professor Heald:** No. It is not Barnett relevant in any sense, because the money has been top sliced before you get to calculating Barnett. The formula applies only when there is spending in England. UK programmes that spend across the UK are outside the scope of Barnett.

**Liz Smith:** That is correct, so can we take this a little bit further? In a Covid scenario, when we obviously want to increase the amount of money that is available to Scotland in order to get ourselves back on our feet—there has been



additional money, which has been drawn from reserves—is it your view that the process of applying that spending has great difficulties if it is at the behest of the UK Government acting on behalf of Scotland rather than being held and disbursed by the Scottish Government?

**Professor Heald:** I thought that the funding system during Covid showed a resilience that people might not have expected. The Barnett guarantee was a very sensible reaction to circumstances that nobody had envisaged, and I think that it worked. I understand perfectly why the Treasury wants to end the Barnett guarantee as Covid goes away, but it was a sensible thing to have in the circumstances.

I go back to my point that, if we do not keep the clear separation of reserved and devolved, then, for relatively small amounts of money, we will obscure accountability lines. One of the things that I hope that the Scottish Government will do in collaboration with the UK Government is to make it quite clear—by publishing clear data—where the additional money is going.

**Liz Smith:** That is helpful. Let us take that down to the relationship between Scottish Government spend and local government spend, because the same argument that you have just enunciated for the UK and Scottish Governments applies to the Scottish Government and Scottish local authorities. Could something be done to increase transparency, particularly when it comes to budget line levels 3 and 4, about how well we spend money in local government, which is responsible for a huge number of public services?

**Professor Heald:** Off the cuff, I do not have enough memory of the level 3 and level 4 structure of the budget to answer that question.

Generally speaking—if you said this to local authority chief executives in Scotland, they would give you a look—the Scottish Government has treated local authorities better than the UK Government has treated local authorities in England. There is evidence from the Institute for Fiscal Studies on that and, in one of its publications, David Eiser has a chapter that is specifically on Scotland. During the hard austerity period, local authorities were treated better, with some health consequentials going to them, but it has gone past the point when that can be done.

Like everybody, local authorities will have a very difficult few years. I cannot think of a time when there was so much uncertainty. There is political uncertainty about what the UK Government will do on its future direction for tax and spend—there are the consequences of Brexit and Covid, and now we have Ukraine. It is very difficult to see what the future direction of UK tax policy will be, but local

authority roles could be made easier if there were a multiyear budget.

**Liz Smith:** I very much agree with that. I raised the point because, as you said at the outset of your submission, if we are to improve the efficiency of public services, it is important that we are able to measure how well the money is being spent, and that is often quite far down the budget line.

**Professor Heald:** Yes, but to some extent that is the role of Audit Scotland and the Accounts Commission.

**Liz Smith:** And of this committee.

**Professor Heald:** When the devolution legislation was going through Westminster, the then chairman of the Public Accounts Committee wanted the PAC to have control of Holyrood expenditure. Donald Dewar rightly resisted that. The accountability for devolved expenditure is the responsibility of this Parliament, and Audit Scotland and the Accounts Commission are valuable agencies.

10:15

**Daniel Johnson (Edinburgh Southern) (Lab):** I thank Professor Heald for his submission, which is a useful insight into the context and purpose of the Scottish Government's spending review. Professor Heald, my reading of your submission is largely that the review is the right thing to do but that the framework document that has already been published by the Government does not go into sufficient detail on the context and dynamics. Is that the correct reading of what you are saying?

Could you elaborate on the context that has been created by Covid over the period of the review? What are the dynamics of Covid recovery that the review should address, from the point of view both of economic scarring and of what public services will be dealing with?

**Professor Heald:** It is still quite early to know how much economic scarring there will be. There are different views, but the general consensus seems to be that there is less scarring than people expected. However, Covid recovery will certainly have effects on the structure of economies.

One of the worrying things for Scotland—when you look at the income tax data, you will see this—is the significant effects of the decline of North Sea oil and gas. If we look at the parliamentary analysis that Her Majesty's Revenue and Customs produces of which constituencies generate most income tax revenues, we see that they are Edinburgh South, which is the prosperity of the capital and financial services, and Aberdeen South, which is oil and gas. For the past few years, we have started seeing a decline in the

index of per capita income tax revenues and that the north-east is suffering very badly. Given that Scotland does not have anything like the number of very high-income taxpayers as London and the south-east, we are very dependent on well-paid but not extravagantly well-paid people who are paying the higher rate.

On your initial summary of what my concern is, when I was preparing for this meeting, I read a series of Scottish Government documents on the medium-term fiscal framework and the long-term capital plan. It might have been better if those had been put in a single document with a longer lead time, but I can imagine the work pressures on Scottish Government officials and ministers in the context of Covid having dominated things for the past year.

**Daniel Johnson:** I want to follow up on your point about the structure and composition of the income tax base in Scotland. In response to a question from the convener, you discussed the particular issues around the intermediate rate and how that works. You said that research had been undertaken. Could you point the committee to that research? This is a pivotal but underexamined point. Are there things that we should be looking at in relation to that issue?

**Professor Heald:** There is a good discussion in the medium-term fiscal framework about the vulnerability of income tax revenues. There is also a policy document published by the Scottish Government about the performance of income tax revenues in the first year for which there was good data. There is also a very interesting HMRC study. In the end, the working assumption is that, if Scotland puts any more money on the top rate, the actual proceeds might be positive or negative—we do not know.

In the terms of the fiscal framework review, the big issue is that the composition of the Scottish income tax base is not the same as the composition of the rest-of-UK income tax base. Of course, one always has to make the qualification that the RUK income tax base is driven by London and the south-east and is not representative of what happens elsewhere in England.

**Daniel Johnson:** In a similar area, examining the context again, I think that the whole committee was struck by the Scottish Fiscal Commission forecast of employment growth and wage growth, and what that was going to do for the medium-term outlook for income tax revenues and therefore the block grant adjustment. It looks as though, within the next five years, we will receive around £400 million less than we would do under the Barnett formula. The other aspect that sometimes gets missed in the commentary is our social security commitments, so the totality looks like a shortfall of about £700 million.

Do the documents that have been produced thus far have sufficient focus on that medium-term issue? Is there sufficient analysis of the linkages? That shortfall is not just an outcome; potentially, levers are available that could impact wage growth and the number of jobs in the economy. Are those sufficiently examined in the documentation that has been published so far?

**Professor Heald:** If you put all the documentation together, the answer is yes, but not if you mean the spending review document. I can understand the difficulty of doing a major piece of work in the context of working through Covid, but it would have been nice to see everything in one place.

With the numbers that you cite, we now see that the Smith commission was a rushed undertaking. At the time, many people, including me, thought that Scotland got a pretty good deal with the index per capita method being used rather than the comparable method. We now know that it is more complicated than that, because of the drivers within the composition of the tax base.

**Daniel Johnson:** Emma Congreve, I have a question for you about addressing child poverty, which is one of the explicit objectives of the review that is being undertaken. We also have statutory targets. Given that it is such an explicit and overarching objective, will you provide some context for how we are proceeding against those statutory targets and whether we are on track to achieve them, even with doubling the child payment?

**Emma Congreve:** You will be aware that, in the next couple of weeks, the Scottish Government will, I believe, produce its next tackling child poverty delivery plan, in which I expect it will make an assessment of whether it feels that it is on track to achieve the targets.

We have been thinking about the question quite a lot recently. Let us put to one side Covid, which we will come back to, and look at some of the policy drivers that have come about since the statutory targets were put into place. The Scottish child payment has been introduced and changes have been made to universal credit: there was the £20 top-up, which was temporary, and now there have been changes to the taper rate.

There is no doubt that those two policies together will have made an impact on the trajectory towards the targets. As we are, unfortunately, discovering even more, the answer depends on what model you are using to estimate impact. A number of assumptions underpin any model, which can give a slightly different results. Using the models that I, the Joseph Rowntree Foundation and others have access to, our best estimate is that we are not on track to achieve the

interim or final targets. However, depending on what is announced in the next tackling child poverty delivery plan, our assessment of that might change.

My interest in the fact that tackling child poverty is listed as a priority in the spending review framework is that, in previous years, when the budget came out, it was impossible to understand how much money in it was put towards tackling child poverty. We have asked the question many times and tried to do our own calculations. The Scottish Government has been doing retrospective work to ask how much it spent on child poverty two years ago, but the spending review framework seems to suggest that it will make those links explicit, so we will be able to look at the spending review and see an amount of money that is allocated towards tackling child poverty. We will be able to see that in every budget document in the coming years. With that, we hope that we will be able to do the assessment that Liz Smith talked about of how effective the spend is, because we will know what money has gone where and can start to understand its impact.

That could be a good step forward in terms of what we have been complaining about over the past couple of years. It could provide the transparency to see whether we are on track and whether the spending priorities are the same as the legislative priorities as set out in things such as the Child Poverty (Scotland) Act 2017.

**Daniel Johnson:** That is me, except to thank Professor Heald for name checking the Mirrlees review, which I have been recommending to colleagues in private session.

**Ross Greer (West Scotland) (Green):** Professor Heald, you mentioned the need for a UK-wide discussion around taxation, which I absolutely agree with. I accept that most national tax powers are reserved. We do not have the power to create new national taxes in Scotland, but we do have powers over income tax, land and buildings transaction tax, non-domestic rates and so on. We can also create any new local tax that we wish to—we can create new taxation powers for local government. Does the resource spending review offer an opportunity to have a discussion about taxation in Scotland? That would perhaps not be as comprehensive as what you are looking for UK-wide, but should we attempt to discuss taxation in Scotland in the context of devolved constraints?

**Professor Heald:** This is not the time for that, but there is nothing to stop Scotland thinking about its own taxes. It is obvious that non-domestic rates are under great threat from technological change—I am thinking about the growth of online sales versus high streets. The nature of capital in the economy is changing. Steelworks are an

example of why non-domestic rates were attractive—such big plants are immobile. Non-domestic rates are now an issue. I suspect that it would be quite difficult for Scotland to make radical changes in non-domestic rates without that happening at UK level as well, but there is nothing to stop Scotland from trying to take the initiative.

I understand the politics of having a residential property tax to fund local authorities, and I strongly support that measure—it is an important part of local authorities' legitimacy and autonomy—but to do that on the basis of 1991 values is utterly ridiculous and brings the system into disrepute. I understand entirely why Governments never want to tackle that thorn, but it brings the tax system into disrepute.

If, in the context of this more dangerous world of Covid, Ukraine and whatever else you want to mention, public spending is to increase—as I suspect that it will due to demographic pressures, which are enormous—we need to have a sensible discussion about tax. In the end, much depends on the UK Government of the day, but I still think that the devolved Administrations can also have a discussion. On that point, I mention that Wales and Northern Ireland have a slightly better record on domestic property revaluation.

**Ross Greer:** I am in my second parliamentary session. Your point about 1991 valuations reminds me that that tax system is based on valuations from a time before I was born. I hope that that illustrates how tragically out of date the system is, because I am not nearly as young as I once was.

In essence, you are saying that it would be useful to have that discussion about tax, but my take on the first part of your answer is that it should not necessarily be part of, or simultaneous with, the spending review.

**Professor Heald:** That is a much bigger issue. Because of the political difficulties, that is clearly a long-term project.

**Ross Greer:** Does Emma Congreve have any thoughts on how we could take forward a discussion on taxation? I ask that in the context of the significant challenges that we will have to grapple with in the spending review. I find it very hard to imagine how we can close the gap, as such, purely through savings—purely through cuts—so it is essential to have a discussion around taxation, either simultaneously with or perhaps in the immediate aftermath of the spending review. Therefore, it is just a question of the scope of that discussion. I would be interested in your thoughts on that.

10:30

**Emma Congreve:** I was very struck by figure 3 in the framework document. The central projection is of a £3.5 billion gap between funding and spending by 2026-27. I agree that to deal with that through cuts would be a substantial undertaking—that amount is more than the current social care budget.

You mentioned local government taxation. I have worked quite extensively in that area previously. There are a number of ways in which local government could raise its own taxes, and there are additional taxes to consider as well—we are seeing things happen now with the workplace parking levy. There is the start of a discussion on that aspect. Clearly, the process is not straightforward, even if it is understood that there is a big gap between funding and spending.

On non-domestic rates, as well as the valuation structure of the system, there are also a range of reliefs, which is income foregone as opposed to income to spend. I have not been able to check this, but I believe that a report came out at 10 o'clock this morning, which is an evaluation of one of those reliefs—the small business bonus scheme—which some of my colleagues at Strathclyde have been working on. As I cannot definitely say that the report has been published, I will not say what is in it. However, the report might offer some areas for thought in relation to some of that income foregone.

I whole-heartedly agree with you on council tax reform. For many years, the question has been: if not now, when? Something has to be done; a Government needs to bite the bullet. It would probably need to be a Government in the early stages of the parliamentary cycle so that changes can go through and we can come out the other side before the next cycle starts—that would be very important, politically. I would ideally like that to be part of the spending review, but I do not believe that it will be. I think that we will just have to put up with the situation.

**Ross Greer:** Thanks. I have just one final brief question. Professor, there is a line in your written submission that jumped out at me, which is that the resource spending review should be

“a planning ... not a bidding document.”

I understand that to essentially mean that—correct me if I am wrong—you are saying that the Cabinet Secretary for Finance and the Economy should ensure that all her Cabinet colleagues do not come back with a dozen different papers saying, “Here’s why my portfolio can’t be cut and needs more money”. If you were giving advice to the finance secretary on how to ensure that that does not happen, what would you say to her?

**Professor Heald:** The convener has already said that people come only to ask for more money—nobody ever asks for less money. I really meant something quite different. There are places in the framework document that are just complaints about the constitutional settlement and the fiscal settlement. You do not want to have a spending review that is just a bid for more UK Government funding through Barnett or through some other mechanism.

One of the points that I make in my memorandum is that it is really important to think about the timescale of a four-year Scottish spending review; it will run beyond the next UK general election and beyond the present UK spending review. In the later years, there will be substantial uncertainty. That uncertainty grows all the time—for example, the inflation risk is much greater now than it was even when I wrote my memorandum.

There have been times in the past when the Treasury has kept a substantial contingency reserve. One of my suggestions in the memorandum is about establishing a substantial contingency reserve. You want to be able to tell health bodies, local authorities and all the other organisations that receive funding that you have pretty good certainty about the numbers for years 1 and 2 and, hopefully, for year 3. However, things will happen. This has been a period of remarkably unexpected events. It is important that the Cabinet Secretary for Finance and the Economy has a line in the spending review that will go up over successive years in the spending review cycle, that she holds back money and that she does not allocate everything.

I will refer to the great difficulty that we have, which, to some extent, Covid has been part of. I looked at the block grant transparency statement that the Treasury publishes, which shows that there have been nine fiscal events since 2015. In the past, in more stable times, the fiscal event tended to be a spending review, and there would also be minor top-ups at budgets and autumn statements. Clearly, it is now very difficult for the finance secretary to have any idea what future money or potential cuts will come. Therefore, you need a buffer.

I know that that is presentationally difficult, because the Government will want to say that health spending is going up, education spending is going up and so on, but if you do not keep a buffer at the centre, you will find it very difficult to cope with shocks. You do not want to start taking money away from people in-year because, if people think that they will have money taken off them, they will spend in less efficient ways.

**Ross Greer:** Thank you. That is all from me.

**The Convener:** I get what you are saying, Professor Heald, but there is another difficulty in addition to the political difficulties of putting money away at a time when there is huge pressure on budgets, as there is at the moment. In previous decades, we saw a tendency in UK Governments to have, for example, what were, as I remember, called election bribes. Governments would have a couple of years of really difficult and unpalatable policies and then, suddenly, at the end of their four or five years, they would have a big pot of money. They would say that that was because their policies were working and they would blow the money on a pre-election splurge.

The difficulty is that that would perhaps be a temptation for a Government that was building up such a reserve. If it was 4 or 5 per cent behind in the polls, for example, it might feel a need to oil the wheels a bit and say that all the difficult policies that it had enacted over the past three or four years were working so fantastically well that it had managed to generate additional funding. Therefore, there are real difficulties with the approach that you suggest not just from a presentational point of view; the money would be a temptation to Governments.

When I was on Glasgow City Council, I looked at rent increases. Every year for 40 years, the lowest rates of increase were in election years and the highest rates were in the year after an election. I do not think that Glasgow was alone in that.

**Professor Heald:** That was a very eloquent statement on the political cycle. However, I still think that, despite those political difficulties, you do not want to get into a position in which you tell local authorities and NHS bodies what their funding plans are for four years and then have to start taking money back off them because of unexpected events. One of the things that we have learned over the past few years is that the unexpected will happen, but we do not know what unexpected thing that will be.

**The Convener:** Okay. We have to think about the areas from which we are going to take that money and that is the most difficult decision of all.

**Douglas Lumsden (North East Scotland) (Con):** You are so cynical at times, convener.

I want to go into a bit more detail about the linkage between the resource spending review and the national performance framework. Professor Heald, you mentioned in your submission that there are 81 indicators and that the Government has to prioritise those in the spending review. Is that number too many, or is it the right number and the review just needs to focus a bit more on some of the key indicators?

**Professor Heald:** It needs to focus on some of them. There is a distinction between saying that

and saying that some of the 81 indicators are not worthy. You can have 81 worthy indicators, but in the context of a four-year spending plan in difficult economic circumstances, you cannot have every one of them as a priority. There has to be prioritisation.

**Douglas Lumsden:** Do you feel that there is not enough prioritisation at present? Do you feel that all 81 indicators are treated equally?

**Professor Heald:** It is quite difficult to see how the budget documents and the spending review link with the national performance framework.

**Douglas Lumsden:** Does Emma Congreve have a view on that?

**Emma Congreve:** I echo the comment that it is very difficult to read between those three elements—the spending review, the budget documents and the national performance framework.

I am not sure that I would necessarily have a view on whether there are too many indicators in the NPF. You would expect people to be working to a range of different priorities, depending on which area of Government they are in. You need to have a broad range of priorities so that each area of Government knows what it is working towards and the outcomes that it is delivering.

Where we often have problems and why we cannot make a link between the budget documents and the NPF is that the finance teams that work on the budget are often not given responsibility for ensuring that a budget document links to the NPF. It is for the policymakers in the individual parts of Government to ensure that there is a link, but when the big decisions are being made in the finance teams, that link does not work.

The finance teams need to be held to account for ensuring that there is an understanding of how the decisions that are made running up to the budget—in those last few days, sometimes—link to the national performance framework and what impact they will have.

Within that, there are also statutory requirements to carry out equality impact assessments and fairer Scotland impact assessments. However, those are often carried out after the fact because it is not considered to be within the remit of the finance teams to do that. There is a disconnect between the finance and budget processes and the NPF. They are seen as two separate things when, actually, decisions that are made on finance will ultimately impact on the NPF.

**Douglas Lumsden:** What would you advise the Government to do, then? Should there be a document that explains the linkages between the

spending review and the NPF? How do we get them better entwined?

**Emma Congreve:** That is a very interesting question. I sit on the equality budget advisory group that the Scottish Government set up, which is chaired by Angela O'Hagan. A lot of what we do is to try to figure out how such things can be done better.

At the moment, on budget day, the budget is accompanied by an equality and fairer Scotland budget statement, which does a lot of that linkage to outcomes in terms of the equality mindset. However, that is an after-the-fact document; it does not determine policy decisions in the budget.

The recommendations of the budget review group included the idea of moving to year-long scrutiny and ensuring that some of the decision making on the budget happens during the year so that such analysis can be done. However, we come up against the fact that budgets—and spending reviews, as we are seeing—are done in a very short space of time and there is not necessarily the time to do the required work, so timing is an issue.

Some of the budget review group recommendations have been taken on and scrutiny is more of a year-round process. However, when it comes to the big decisions being made on the budget and on the spending review, things are still very compressed and a little bit too siloed for that to happen.

**Douglas Lumsden:** Professor Heald, would you give the Government any advice on how it could better intertwine those things?

**Professor Heald:** No—Emma Congreve's reply covers everything that I would want to say.

**Douglas Lumsden:** I have another question, on early intervention and prevention. Professor Heald, you mentioned in your submission that housing, for example, will have an impact on health outcomes. How does the Government make that shift from spend being input based to being output based? Do you have any ideas on how it could do that?

**Emma Congreve:** Again, that is part of a standard policy-making process. Before making a decision, you go through an appraisal stage to understand the impacts of a range of options to meet a problem or an outcome. You do not have just one option for meeting an outcome; there are many different policies in different forms that you can use. When you carry out that appraisal, you find what the unintended consequences are.

10:45

With regard to prevention, which features in pretty much every Scottish Government document—quite rightly so, as that is a very important issue—it is unfortunately the case that there has been a lack of investment in evaluation to give you that conclusive understanding of what is and what is not preventative spending. Do we understand now what the preventative impact of, say, our investment in free personal care might have been on health spending? I would say no, partly because we did not put in place a monitoring and evaluating structure that would have allowed us to undertake such an assessment over time and understand what that impact had been. We can say the same about a large range of policies. If you want to understand prevention, you have to figure out how to measure it.

**Douglas Lumsden:** Evaluation is a presentation of how spending some more money on, for example, local government can save you a lot on health later on. I guess that every Government wrestles with that difficulty, but it is something that has to be done eventually.

**Emma Congreve:** Absolutely. One potentially massive area where spending now will prevent spending down the line is child poverty, which is in the framework. There is evidence that links such poverty to poorer health outcomes as well as, of course, to poorer educational outcomes, so investment in that will link to lower spend in those other areas in future—and even in the present with regard to spend on the attainment gap.

However, when you look at the work on child poverty, you will see that there are no processes in place to allow you to work out what impact measures to reduce child poverty are having on, say, attainment. You just do not necessarily see those kinds of structures, and that is partly because of the silos that exist in Government. The child poverty section of Government is very different from the education section, and there needs to be more joining up in that respect. The framework document talks about joining things up across Government, but it does not say how it is will do that. That would be a key thing to understand.

**Douglas Lumsden:** Thank you.

**Michelle Thomson (Falkirk East) (SNP):** Good morning. I have a couple of questions for Professor Heald.

I have to say that your comments on accountability were music to my ears, as I have raised the issue a number of times with different committee witnesses, not least Mr Gove, who recently appeared before us on behalf of the UK Government. I asked him specifically how Audit Scotland would be liaised with to check on spend

that had been provided by the UK Government. I have to say that he was less than certain in his response, which I think—I am paraphrasing—was, “However they want.” Therefore, I think that you have touched on a very important area.

That said, the other important area is how, in efficiency terms, we attribute a cost to the bidding war that you have alluded to. Do you have any sense of the cost to English local councils of, as you describe it,

“bidding for UK-controlled resources in the way that has become dysfunctional in England”?

Can you furnish us with any figures on that?

**Professor Heald:** I cannot think of any specific study in that respect, but what happened in England is that local authorities were under so much financial stress that some of them started doing totally irresponsible things such as borrowing from the Public Works Loan Board at subsidised rates and investing in commercial property outside their jurisdiction. I am astonished that the Treasury allowed such things to happen.

In general, bidding systems for small amounts of money can consume a lot of resources. If one surveyed local authorities in England, they would certainly say that; they often complain about the extent to which they have to bid through separate channels. I am a strong believer in giving block grants to local authorities. In general, it is much better, within a broad framework set by the Scottish Government, to fund through block grants than to start a lot of bidding. In the committee’s session with Mr Gove, he spoke about the use of objective criteria. The trouble is, however, that there are so many objective criteria that you can make your choice when it comes to allocating money.

**Michelle Thomson:** To go back to the point about trying to apportion some amount to the loss as a result of that bidding, it strikes me that that might be a useful exercise, because I am concerned that it is happening more frequently.

I want to pick up on another point. You may be suggesting where the differences lie between funding from the UK Government to the Scottish Government and from the Scottish Government to councils, in that the Scottish Government, with its universal policies, is not subjecting local councils to bidding. It is simply saying, “This is a pot of money that has to be spent in the same way.” To go back to Liz Smith’s point, we are not actually comparing like with like, are we?

**Professor Heald:** I am not sure of the answer to that question.

**Michelle Thomson:** I am trying to explain that, from an accountability perspective, money that the UK Government provides to councils has to be bid

for. We have already agreed that that process is inefficient, as some public expenditure is lost through days of inefficiency. It is not the same as money being set aside, with assistance on how councils should spend it from the Scottish Government, because that is done on a universal basis. I am just trying to confirm that my understanding is correct.

**Professor Heald:** Essentially, you are talking about money being earmarked, rather than a bidding system.

**Michelle Thomson:** Yes.

**Professor Heald:** On the whole, I do not like earmarked money, but it is much better than having bidding wars.

**Michelle Thomson:** Yes—I am trying to make that distinction. It is not like for like in quite the way that was set out.

I turn to my other question. I am interested in the point that you make at paragraph 13 of your submission. Can you give us a bit more flavour on disaggregating data in order to distinguish between employment activities that are in the public sector in Scotland but are not in the public sector in England? From the point of view of comparing apples with apples, that is very interesting, because the picture is quite opaque when we look at that per capita spend.

**Professor Heald:** The framework document for the resource spending review has a diagram that shows higher public spending and higher public employment in Scotland than in the rest of the UK, but one has to be very careful with that, not only because there are activities in the public sector in Scotland that are not in the public sector in England—water is one example—but because one needs to consider the extent of contracting out. English local authorities have probably done more contracting out than Scottish authorities have, and those employees do not count as public sector employees. In addition, usage of publicly provided health and education in Scotland is higher than it is in England, so one would see the effect there.

I can understand why, because of the public sector pay bill, that is an important strategic issue, but one has to be careful in drawing comparisons. If the public sector is doing those things in-house and is doing them better than if the services were contracted out—if water were privatised, for example—that is not a bad thing, but one needs to understand what the comparators are.

**Michelle Thomson:** Yes. I accept your point, because until we have the data, we cannot start to make that assessment. I do not know whether Emma Congreve has anything to add in response to my two questions.

**Emma Congreve:** I have one thought on the inefficiencies of bidding. I am aware that a number of local authorities have put out tender documents to get people to help them to put together bids. We are talking about considerable sums of money. There may be an argument that it is good for local authorities to review their evidence and data on some of these things, and it might help in other areas, but I appreciate that that does not come without a cost. The committee might want to look at that.

**John Mason (Glasgow Shettleston) (SNP):** We have covered a lot of ground already. I will go back to a general question and will start with Ms Congreve. Previous witnesses have suggested that the whole spending review is at too high a level and needs to be more detailed. What is your feeling on that?

**Emma Congreve:** The framework document misses a lot of crucial information, as I have previously said, about how some of the aspirations that are set out in it will be achieved. I will mention a couple of areas that have not come up so far. What happens when priorities impact one another? For example, one of the priorities is child poverty and another is climate change. There are times when those two will rub against each other. Tackling fuel poverty is one such area, because in order to better heat homes you might want to subsidise gas boilers to improve energy efficiency in those homes, but that rubs against your aims on climate change. What happens when there is that kind of divergence in the outcomes of the priorities?

There are areas where that is laid out. While it sounds as though there are aspirations for transparency, there is no detail on how that will come into effect. What data and analysis will be published alongside the spending review? What analysis is being done, as we said at the beginning, to understand the impact of reducing spend in other areas? That is key.

How can you make sure that there is collaboration across different areas of Government so that you do not have silo working? I know that in some of its work, the New Zealand Government makes two ministers from different areas of Government sign up to budget policies to show that they meet outcomes in at least two different areas, and if that is not the case, they are less likely to go ahead with the spending proposal in question. It is that kind of detail that is missing, which is worrying, because in the heat of the spending review, if we do not have clarity on the process that will be followed, those details will probably be missed.

I welcome the intentions of the framework, but it feels like a wish list and I am worried about what we will see come May.

**John Mason:** Professor Heald, you covered that area. The framework document talks about priorities and objectives. Am I right in saying that you argue that those are not the same things?

**Professor Heald:** The priorities that are stated are too high level and too general. In the context of the next four years, the crucial things are to recover from Covid and, where Covid has had beneficial effects in terms of working patterns and so on and where there are benefits to be gained from what we have learned technologically from the response to Covid, to embed those.

Improving the relationships with local authorities—even though they are nothing like as bad in Scotland as they have been in England—is important, because local authorities are important delivery bodies for the public sector and are important democratically. That is particularly the case in the context of being able to give a multiyear settlement with a degree of certainty—obviously, that must be caveated by what we have discussed. Because of the demographic challenges that we face, the public sector has to become more efficient in the same way that everything has to become more efficient.

**John Mason:** As Ms Congreve suggested, the three objectives—if we can call them that—could rub against one another a bit. Do we need to set a priority among those three and say which is the most important out of child poverty, climate change or the economy and recovering from Covid?

11:00

**Professor Heald:** I do not think that you can. There are areas where those objectives support one another, and areas where they come into conflict. For the Scottish economy, policy on oil and gas will obviously be very important. I have already mentioned the fact that lots of Scottish income tax revenues come from the north-east. There is already some sign of a decline in the revenues per capita that are generated from those areas. The further development of oil and gas rubs against the issue of tackling climate change, although there is a difference between not using oil and gas and depending on foreign sources of oil and gas.

**John Mason:** Turning to another point, you wrote:

“Getting the balance of expenditures right is a challenge for all governments”.

When you talk about getting it right, are you arguing that there is a right balance between, say, health and local government, or are those purely subjective tastes?



**Professor Heald:** They are not solely subjective, but political judgments come into it. “Right” in that sense is a bit colloquial, but the point is that there is always a challenge in how you decide.

We have not talked much about the performance of the Scottish economy, which will be vital to future tax revenues. The issues that we have with the block grant adjustment must be resolved technically, but there is an underlying issue around the performance of the economy.

One of the best ways of dealing with poverty and with child poverty is for the economy to perform well. People having well-paid jobs is good for individuals and households, and it is good for the Scottish budget.

**John Mason:** Another challenge that you have raised, which is especially relevant in a time of fiscal scarcity, is the question of making new commitments against funding existing programmes. At the present time, given that money is likely to be tight for the next few years, should we be holding back on new developments and emphasising keeping existing things going? How do we get the balance right in that regard?

**Professor Heald:** That is a political judgment. On the technical side, you need to understand the relationship between programmes and the extent to which they help one another. To come back to our previous discussion, when we get Barnett consequentials for health because England has spent more money on health, we should not assume that it automatically goes to the health service because, as we have already discussed, health outcomes can depend on all sorts of things, such as environmental spend and housing spend.

I have always been in favour of more transparency about how the Barnett formula has operated, and I have tried to contribute to that discussion, but we must not get fixated on England deciding to spend more money on X, so we have to spend the Barnett consequentials on X.

**John Mason:** But you would accept that, politically, it is very difficult not to do that.

**Professor Heald:** Politically, it is very difficult, but there is an educational task for the Government and the Parliament to do to persuade the Scottish people that, particularly given Scotland’s health record, “health” is not identical to the NHS. There are other kinds of policy to pursue: taking children out of poverty and getting rid of bad housing are important in improving the health and employability of citizens.

**John Mason:** Ms Congreve, would you like to comment on any of that? Should we be focusing

on keeping existing services going or should we be going into new areas?

**Emma Congreve:** I do not think it is right to say that uncertainty should make us stand still in looking towards outcomes that have already been legislated for and on which there is parliamentary consensus. Where there are understood problems, it is right that new ideas and policies are developed in order to move those things forward. I do not think that we can stand still on climate change or on child poverty. That does not feel like an appropriate response to the levels of uncertainty that we have.

This has to be about reprioritisation, understanding where money is being spent well and spent badly and taking forward that exercise, given the scale of the difference between the funding that we expect to come through and the spending that we expect to be required—which I think may get worse rather than better. That is the imperative, and I do not think that standing still is necessarily the right response.

**The Convener:** I am a great believer in evolution and flexibility myself.

That concludes questions from committee members; I have one question about taxation. What do you believe is the public appetite for new local taxes? The committee has discussed the point that people who earn £43,000 to £50,000 will face a marginal tax rate of 54.25 per cent from April, when we add national insurance to income tax. From the remaining sum, people have to pay VAT, excise duty, council tax, fuel duty et cetera, so there is a significant squeeze on incomes. Further down the scale, people are also feeling the pinch.

Is it not the case that the Treasury has a bit of a surge in income at the moment? We have fiscal drag, and inflation is bringing in additional revenue. I understand that Rishi Sunak has £18 billion more than he anticipated that he would have at this time of year. We could even remove the care levy that is being suggested—that would be fundable.

What I am trying to say is that, given the inflationary pressures and the extent to which people are feeling the pinch, particularly from energy, food and fuel prices, do you feel that this is the right time to consider additional taxation of any kind?

**Professor Heald:** You are absolutely right to emphasise the 54-plus per cent marginal tax rate on people on relatively modest incomes. That is a very serious problem, which is partly due to the interaction of the national insurance system and the income tax thresholds. I do not think that there is ever an appetite for more taxation, although some taxes are better than others.

Relying on fiscal drag is a serious mistake. Fiscal drag will bring more people into higher tax rates. Having big jumps in the marginal rate is extremely undesirable. The political problem is that, although the public appear to understand tax rates, they do not understand the effect of thresholds. If the Chancellor of the Exchequer put up RUK income tax rather than putting up national insurance, people would understand that it was going up, but people do not necessarily know about the freezing of the personal allowance, the freezing of the £100,000 level for the withdrawal of personal allowances or the freezing of the £150,000 bottom threshold for the additional rate. As I said, I do not think there is ever an appetite for more taxation.

There has to be a debate about spending pressures. People want more spending, just as the organisations that come and give evidence to your committee do, but people do not want to raise the tax revenues or to put forward tax proposals. That is very important, given the external uncertainty and the demographic challenges. Social care has been a major policy failure across the UK. There will be more demands.

That is the central conundrum that you point to.

**The Convener:** Ms Congreve, you will have the final word. On the issue of fiscal drag, do you agree with what the UK and Scottish Governments have introduced for next year?

**Emma Congreve:** To come back to a point that Professor Heald made, it might be that advantage is being taken of people's ignorance of how the systems work. I would much prefer us to be more straight with people about the implications of the decisions that are taken.

I agree that there is a generally held assumption that people do not want to pay additional tax—if you put the question like that, that will be the general impression—but we need to understand why people might need to pay more tax and why people in different parts of the income distribution are being asked to pay more tax. The cost of living crisis will affect some families to a huge degree, while it will not impact others very much at all. We need to understand that there are very different experiences across the income distribution. It is often felt to be quite black and white that putting up taxes is bad for everyone, but the spending that that will result in will have redistributive benefit.

Again, it is a question of education. There needs to be transparency; Governments should not try to hide decisions or their implications. We would all be a lot better off in the long run if we were all a bit clearer about why we are paying tax and how much tax we are paying.

**The Convener:** Indeed. Of course, people are always quite happy for other people to pay more

tax, even though they themselves are never so enthusiastic—with the exception of John Mason, who is always keen to pay more tax.

I thank Emma Congreve and Professor Heald for their evidence, which was extremely helpful. The committee will consider and agree a response to the Scottish Government's consultation on the resource spending review framework at a future meeting.

We will now take a short break before we move on to our next item of business.

11:11

*Meeting suspended.*

11:19

*On resuming—*

## Subordinate Legislation

### Budget (Scotland) Act 2021 Amendment Regulations 2022

**The Convener:** The next item is evidence from the Minister for Public Finance, Planning and Community Wealth, Tom Arthur, on the draft amendment regulations—the so-called spring budget revision.

Mr Arthur is joined by Scottish Government officials Scott Mackay, head of fiscal management and strategy, and Niall Caldwell, corporate treasurer. I welcome you all to the meeting and I invite Mr Arthur to make a short opening statement.

**The Minister for Public Finance, Planning and Community Wealth (Tom Arthur):** Thank you, convener, and good morning to the committee.

The spring budget revision provides the final opportunity to formally amend the Scottish budget for 2021-22. The budget revision contains the usual four categories of changes: allocation of the remaining Covid-19 consequentials, along with some other funding changes; a number of technical adjustments that have no impact on spending power; some Whitehall transfers; and some budget-neutral transfers of resources between portfolio budgets.

The supporting document on the spring budget revision and the finance update prepared by my officials provide background information on the net changes. The funding changes increase the budget by £1,428.3 million and comprise the majority of the Covid-19 funding, which has been allocated over a number of lines, as detailed in the finance update.

The technical adjustments are mainly non-cash and have a net negative impact of £357.3 million on the overall aggregate position. It is necessary to reflect those adjustments to ensure that the budget is consistent with the accounting requirements and with the final outturn that will be reported in our annual accounts.

Whitehall transfers total £131.2 million and largely comprise funding for the 26th United Nations climate change conference of the parties—COP26—along with a second instalment of the migrant health surcharge.

The final part of the budget revision concerns the transfer of funds within and between portfolios to better align the budgets with profiled spend.

At the time of the publication of the spring budget revision, we did not have final confirmation from HM Treasury on the amount of Barnett consequentials being allocated in the UK supplementary estimates. As a result, we were forced to base the budget revision on the best estimate at that time. There were further developments in the funding position following the SBR's publication and my officials have provided additional information on the subsequent changes in the finance update.

That information, together with the background information provided, is intended to support the scrutiny process and to offer committee members more insight into the challenges of managing the budget position while the funding position is so volatile.

As we approach the financial year-end we will continue, in line with our normal practice, to monitor forecast outturn against budget and utilise any emerging underspends to ensure that we make optimum use of the resources available in 2021-22 and manage the necessary carry forward to meet additional spending commitments that are reflected in the budget agreement reached for 2022-23.

In line with previous years, my officials have included in the finance update for the committee an indication of the forecast outturn position. Provisional outturn figures will be announced in early June.

I am happy to take any questions that the committee may have.

**The Convener:** Thank you for that opening statement, minister. Before we go any further, I note that committee members are extremely appreciative of the steps that you and your officials have taken to provide so much detail for this spring revision. It is more detail than we have ever had before and I think that it reflects well on the Government, which clearly listened when the committee requested additional detail, so thanks very much for that. That is the view across the committee.

I have a few opening questions. The first one is about paragraph 15 of the finance update, which comes under A.2.2. There is a £217.7 million increase in the justice and veterans portfolio and, in relation to pensions, there is

“£183 million of additional funding for Police & Fire Pensions in Justice & Veterans.”

That appears not to have been anticipated, but one would have thought that pensions can be anticipated well in advance and it is quite a significant sum. Can you give us a wee explanation of that?

**Tom Arthur:** As you will be aware from previous budget revisions, this has been routine practice in relation to where the budget for the pensions to which you refer has been allocated. I will ask Scott Mackay to provide some more context and background.

**Scott Mackay (Scottish Government):** It is a demand-led budget. The forecast varies across the year. Historically, we have always topped up the budget quite significantly as later forecasts have emerged across the year. An initial flat budget is set through the budget bill and then it is augmented in line with the latest forecasts as we go through the year.

**The Convener:** But in relation to pensions, you must know a wee bit in advance that folk are going to retire, surely? If it was a few million pounds here or there, I could understand—some people retire early because of ill health, for example. However, £217.7 million is quite a significant sum of money and one would have thought that a sum of that amount would have been anticipated well in advance.

**Scott Mackay:** Clearly it is a significant sum. The numbers who retire can vary quite significantly over the year, but I think that there is arguably a strong case for looking again at the baseline budget, and it is one of the things that will be considered in the upcoming spending review.

**The Convener:** Moving on, I note the reference in paragraph 17 to

“£40 million released from the Affordable Housing Supply Programme due to ongoing supply issues and the effect this has on the pace of delivery.”

Is that because the pandemic has led to construction difficulties? Is it your hope that that money will subsequently be put back into affordable housing?

**Tom Arthur:** As you will be aware, a number of factors, one of which is the pandemic, are impacting on the availability of materials. Price is one implication of that, but issues with the availability and sourcing of materials due to supply chain and logistical challenges have inhibited the deployment of the money. We are committed to constructing 110,000 houses over the next 10 years as part of the Bute house agreement and consistent with our ambitions in “Housing to 2040”. We are absolutely committed to delivering the resource necessary to realise those ambitions but, as I think the committee will understand, our capacity to build houses—and, subsequently, to spend money on building houses—is constrained by the availability of materials. Of course, that challenge is not unique to Scotland or, indeed, the UK; it is global.

**The Convener:** I think that we need to keep an eye on that area. The Government has a

commitment to build a certain number of houses, but at the same time construction inflation is at a very high level, and any budgetary reductions will militate against reaching that target.

An issue that a number of members have commented on arises in section A.3 of annex A of the supporting document. In that section, which relates to Whitehall transfers, you say:

“The largest of these”

transfers

“relates to a further instalment of the migrant health surcharge of £62.4 million.”

Can you tell us a wee bit about the migrant health surcharge?

**Tom Arthur:** Yes. I think that we discussed the matter at the evidence session on the autumn budget revision. That income is collected and administered centrally; although the process involved is analogous to that for the Barnett formula, it is not a Barnett transfer, and it is reflected in budget revisions as a means of allocating it to the budget. I do not know whether Scott Mackay or Niall Caldwell has anything else to add.

**Scott Mackay:** Only to say that the amount has been significantly stepped up post Brexit. It is now at a much higher level.

**The Convener:** Given that we might be seeing a significant additional number of refugees coming in over the next few months, will that increase significantly? Will you be looking at Barnett consequential as a result of that in the months ahead?

**Tom Arthur:** We will monitor the position very carefully. As I said last week in the chamber—echoing the First Minister’s comments in the local government finance order debate—we are ready and willing to play our part in Scotland. In the broader context of the crisis in Ukraine, we have been clear about what we would like the UK Government to do with regard to waiving visas and maximising the number of people coming to the UK. Should the UK Government make any funding available to support that effort, we will of course deploy it to maximum effect to support people coming to Scotland.

**The Convener:** I found paragraph 30 of section C.1 of the supporting document quite interesting. You say:

“The minor differences between the Scottish Government underspend as reported in the Accounts (and discussed in detail by Audit Scotland) and underspend against HM Treasury budget aggregates arise through a number of reasons; differing accounting and budgeting treatment of capital expenditure, differences in the scoring of working capital for nondepartmental public bodies and different treatment of expected credit losses.”

Having what are, in effect, two different systems obviously makes transparency difficult. Have there been discussions about, or is any work on-going, to try to smooth over some of those differences to ensure that we have a uniform method of accounting?

**Tom Arthur:** That is a fair and reasonable question. With this not-so-brief guide to the spring budget revision, we have tried to provide as much context and information as possible, and as you have correctly identified, we reflect the respective practices of the Treasury and the Scottish Government. As for the potential for a more unified approach, we are happy to reflect on that.

Scott, is there any technical commentary that you would want to make?

11:30

**Scott Mackay:** Some of the technical differences between the Treasury budget and the Scottish budget arise as a consequence of the Public Finance and Accountability (Scotland) Act 2000, which specifies how we must report. Moreover, our reporting of the accounts is covered by a different set of standards and separate Government reporting requirements, as opposed to the consolidated budgeting guidance, in which there are some differences in the way in which things are treated from an accounting perspective, and the national accounts, with their Office for National Statistics or European system of accounting and slight differences in treatment.

I recognise that that gives us challenges in transparency and consistency of reporting, but, as the minister has said, we are conscious of the need to improve transparency and are thinking about how we improve the Treasury reporting. There is no getting away from the need to follow the accounting requirements in the “Government Financial Reporting Manual”, but we can think about the additional information that we can provide on how things score against Treasury budgets and the differences in that respect.

**The Convener:** I think that we will want to look at that a bit more in future revisions—perhaps in the autumn revision—to ensure that we are not comparing apples with oranges.

I have just one more question before I let in my colleagues, who I know have some questions of their own. On 3 February, the same day that the spring budget revision was published, the UK Government announced a package of cost of living measures with an associated consequential impact for the Scottish Government of around £290 million, which was incorporated into the Scottish budget on 10 February. It now transpires that that £290 million will not be coming forward.

What are the implications of that for the Scottish budget in the spring budget revision?

**Tom Arthur:** You are correct to highlight the issue, convener. We had initial indications of resource supplementaries of £841 million. When the cost of living package was announced—which, if I recall correctly, was on 3 February, the day that the SBR was published—we had been led to believe and expected that to be additional resource on top of what had been previously announced. Subsequently, the resource supplementaries were revised down from £841 million to £827 million, and we also learned that there would be no additional money for the cost of living package. Instead, that money was to come from reductions in the previously announced tranche of money, which itself had been subject to reduction.

You are correct, therefore, to indicate that the money has to be found from the previously announced supplementary estimates, but we have an agreement to carry that money forward into next year’s budget, which means that it will not impact on the reserve.

As you will know, the spring budget revision takes place before the end of the financial year, so there are timing issues, in that, when we prepare the revision, which is normally at the end of January, the end-of-year picture has not fully crystallised. A great deal of uncertainty has been created, but with our monthly internal budget monitoring process and management, I am confident that, through a combination of devolved tax performance and emerging underspends, we will be able to meet the carry-forward requirement as set out in the budget.

In summary, you are correct to identify that the money in question was not new but had been previously announced, and even that quantum was reduced. However, because of better-than-expected devolved tax performance and emerging underspends, we are in a position to meet the carry-forward requirements, and the money that will be allocated for cost of living measures and which will go to local authorities to be administered will be part of next year’s budget. We have been allowed to carry that forward with the reserve.

**The Convener:** I am interested in what you have to say on that, because the Scottish Parliament information centre said in its briefing for the committee that

“On the Resource (day-to-day spending) side the Scottish Government must find £98 million by 31 March to meet commitments for the next year budget year starting on 1 April”

as a result, in effect, of not receiving that £290 million.

**Tom Arthur:** Yes, that is correct. To touch on that point, I am confident that we will be in a position not only to ensure that we are within budget but that we are able to take that carry forward into the reserve, which was part of the budget process. That resource will be found, as I mentioned, from a stronger than forecast performance of devolved taxes and emerging underspend in some demand-led areas. As it stands, we are confident that we will not only be able to spend within our budget limit but will have that carry forward in the reserve to meet next year's budget requirements.

**The Convener:** It is interesting from the committee's point of view that ministers always say in every budget that every penny is committed, but when we end up with such bumps in the road—the UK Government reneging on £290 million is a significant bump—the money is still somehow able to be found to smooth them over.

**Tom Arthur:** Again, ultimately, there is an element of every penny being committed, but as we touched on a few moments ago in relation to affordable housing supply, events such as slippage in capital projects can take place, or, in relation to resource, there can be lower than forecast demand in demand-led programmes of funding. That is what has ultimately allowed us to manage this particular position, which, being at year-end, is challenging.

The situation has been compounded by the overall volatility of the late notifications from the UK Government, the complexity caused by the omicron variant and initial indications of resource funding that did not necessarily materialise or were misleading.

However, we are now in a position where we are confident that, due to those forecast underspends in demand-led areas and the stronger performance of devolved taxation, we will have not only the resource to make sure that we spend within our budget limit but money to deploy in the reserve to carry forward.

**Daniel Johnson:** I will pick up on that point. We are four weeks away from the end of the current financial year. I understand what happened with the cost of living payments—there was not the funding that was expected. Nonetheless, table C2.1 sets out clearly that you will overspend by £98 million against budget in order to meet those commitments in the current financial year, although there will be £511 million for next year's budget from this year's budget.

I struggle to square those two things. I understand at a high level what you say about devolved taxes and underspends in other areas. I could accept that statement if we were in quarter 2

of the financial year, but we are four weeks away from year-end. Could you provide a bit more detail so that we can have a bit more confidence? I hope that you know where the £500 million is coming from, because that is quite a big sum.

**Tom Arthur:** Certainly. I will ask Scott Mackay to come in to give a further breakdown on the elements of devolved taxation and the underspend that is emerging in demand-led areas.

**Scott Mackay:** It is important to realise that expenditure was constrained after the announcement that that £296 million for cost of living was not additional. There had been additional planned expenditure in health that we were going to overspend, against the spring budget revision limit. That involved thinking about profiling the health spend across this year and next year and trying to relieve some pressures. That expenditure had to be constrained to the budget that was added at the spring budget revision. Clearly, we were planning for an underspend, because elements of that were embedded in the 2022-23 financial position.

There is a combination of that additional constraint on health not overspending against its budget limit and emerging underspends in areas such as self-isolation support grants, where the demands are now likely to be significantly less than the budget that was allocated.

There has been an adjustment to pensions that is a bit less than the money that was added at the spring budget revision on the latest forecasts and a significant uplift in tax receipts.

**Daniel Johnson:** The convener—quite rightly—puts me under pressure as an Opposition spokesperson to say where the money is coming from. I think that that is a fair challenge. However, I would say the same thing to you. We have numbers that suggest that you are overcommitted by almost £100 million in this year's budget and there are just four weeks to go. I hear what you are saying about pensions, but is that pension adjustment £500 million?

**Scott Mackay:** No.

**Daniel Johnson:** Where else in the budget are we going to underspend in order to generate the £500 million? Why is that not reflected in the spring budget revision itself? You are basically saying that the spring budget revision is not right and that we have overestimated costings by £500 million. Where is it?

**Scott Mackay:** On the numbers, £160 million of health expenditure was constrained as a result of that reduction, although health is not underspending against the limit set out in the budget document—it was a planned overspend. The tax receipts are £250 million more than the

original forecast. Arguably, they could have been reflected in the spring budget revision, but there is also a question about how the block grant will change and, as you will be aware, the reconciliation process for that will not be finalised until September.

There is a significant underspend on the self-isolation support grant against the estimates that were provided in the run-up to finalising the spring budget revision. From memory, I think that that is about £60 million. There is a £30 million reduction on pensions against the figures that we were discussing earlier. We obviously added a budget adjustment in the spring budget revision based on the forecast that we had in the run-up to finalising that. There has been a subsequent revision to that and now it looks like there will be a £30 million underspend against that. In the last round of monitoring, on aggregate, there was about £30 million in underspend emerging across that.

That is all on the resource side. Aggregating all of that, we get the level of forecast underspend that we are talking about as being necessary to support the 2022-23 budget.

**Tom Arthur:** I would make three points on that. First, a lot of underspends are going to emerge towards the end of the financial year—that is just the nature of the year end. Secondly, Mr Johnson made reference to there being four weeks until the end of the financial year, but this is not a reflection of the four weeks—the spring budget revision was not published today. It is a very intense period: we are talking about eight weeks—not even a whole quarter. Thirdly, there were significant announcements on demand-led expenditure towards the end of the financial year in response to omicron. All that has created this particular set of circumstances.

As Scott Mackay said, we can see devolved tax forecasts and performance and we can anticipate where that might go but we cannot be certain because of how subsequent months' performance will outturn, as well as the implications around block grant adjustments. I appreciate that it is a complex matter and perhaps difficult to articulate. I would be happy to reflect on that ahead of next year's spring budget revision to see whether there is a way in which information can be presented more clearly to assist the committee.

I hope that what Scott Mackay has said and what I have tried to articulate offers members some understanding of how we are in this position, which I appreciate, *prima facie*, may seem counterintuitive.

**Daniel Johnson:** I have two things to say about that. First, I understand the how. Secondly, it is not about the information that you have provided, but is about how the situation presenting that

information is being managed. That is the critical difference. I hope that minister accepts that it is a good illustration of the point that Audit Scotland and others have made that it is incredibly difficult to track and manage from the budget through to announcements through to outturn through to consolidated accounts.

11:45

As somebody who has run a business, I recognise and am very familiar with the difference between budget forecasts and cash management. However, when they are so far apart, it always causes concern, and that should be investigated. Do you recognise that as reflecting the broader point from Audit Scotland? That follow-through is the important point.

The level of delta was about £600 million—that is what we get if we add £98 million to the £511 million—which is 15 per cent, crudely, and that is quite a big variance between the budget and what you are saying the actuals will be.

**Tom Arthur:** The broader point that I seek to make is that we need to spend, as you are aware, and we cannot exceed our expenditure limits as set by Treasury. We have a reserve totalling £700 million. Looking at the quantum of the Scottish budget as a whole, we have that very limited space in which to land. We cannot go over. We cannot overspend and we cannot underspend beyond what we can take forward in the reserve—and I am sure that members would rightly be criticising why resource had been lost. That is an extremely challenging set of circumstances. The way that I and others have articulated it is that it is like trying to land a 747 on a postage stamp.

As we move into the latter part of the year we, then have fiscal events including the autumn budget and potentially more in-year funding announced. We then have supplementary estimates. This year, we did not have confirmation of what the supps were going to be until about three weeks after we published the SBR. That creates an incredibly challenging set of circumstances in which to operate, and that compounds the existing challenges that we are all aware of, which meet any government or organisation managing its finances towards year end.

I take the point that you make about needing to provide as much clarity as possible, and I am happy to reflect on that. As I hope the way in which we have presented this information would indicate, I am committed to doing as much as possible to aid transparency and understanding, and I recognise the points that have been raised.

Do you wish to add anything, Scott?

**Scott Mackay:** Just a couple of things. I underline the difficulty and volatility of the position this year. Looking across the timeline of the funding position, we were told at one point that we were getting £220 million of guaranteed funding to support the necessary actions in response to the omicron variant. That became £440 million, but with a clear instruction that, if that proved to be higher than the final supplementary estimate position, any surplus would need to be paid back. That was all the narrative before Christmas. Ministers were taking decisions on funding on the basis of that change in the funding envelope.

Very quickly, we came back in January and we found that the funding position was moving again. It was stepped up a few times until we reached the £841 million position to which the minister referred.

The cabinet secretary and the Cabinet are taking decisions on allocations—they are balancing things right across. All of a sudden, the position has changed again, post cost of living. There is a lot of volatility, and there is a lot of decision making across that time period. The £511 million includes capital and financial transactions, or FTs, of £118 million and £61 million.

I absolutely take the point, however. One of the reasons for the breadth of stuff that is included in the guide—some of the stuff on the reserve, in particular—was to illustrate how that volatility impacts on the reserve position as we go across.

**Daniel Johnson:** Sure—but you do accept this, though. I understand how we got here; it is a matter of reconciling the budget from this year into next. What if we had not got the information that you have just provided orally, that there was a gap? In future years, we should be aiming not to require that narrative to reconcile one year's budget moving into the next year's budget. Is that a fair comment?

**Scott Mackay:** Yes. We are trying to give as much information as we can.

**Daniel Johnson:** I appreciate that.

**Scott Mackay:** The position continues to evolve as we move towards the year end.

**Tom Arthur:** This is a really important discussion, and I very much welcome the committee's interest in this area. Ultimately, the way to remedy the situation is to recognise that the current arrangements that exist are beyond sub-optimal. I do not say that as a partisan or constitutional point. I think that any fair-minded person would recognise that that is the case.

The way to get beyond that and to provide greater transparency is through a revised process. There is an opportunity through the quadrilateral discussions that are taking place among the

respective finance secretaries across the UK and through the fiscal framework review, in which I know the committee is taking a keen interest.

**Liz Smith:** I would echo the comments of the convener, that it is extremely helpful to have this additional information that we have not had on previous occasions. I also thank you, minister, for the letter that you sent me on 16 November 2021, when I asked various questions regarding the autumn budget revisions, particularly on the education front.

I will stay on the education theme for a minute. One of my colleagues wants to ask you about this in a bit more depth, too. Could you interrogate the figure for student loans? It seems to be pretty high.

**Tom Arthur:** This is an important point, and I will ask Scott Mackay to come in on it.

**Scott Mackay:** Is this the change in the student loans?

**Liz Smith:** Yes.

**Scott Mackay:** The change relates to what is known as the resource accounting and budgeting or RAB charge, which is a technical assessment of the level of impairment that needs to be applied against student loans. There is quite a complex model that calculates that impairment. It is an assessment of the likely level of future write-offs and the level of subsidy inherent in the loans, which needs to be recognised up front when the loans are issued. There are a number of economic determinants, including a discount rate that is applied in establishing that figure. The adjustment reflects a change to some of the economic determinants that are used in the model that calculates the level of impairment.

**Liz Smith:** Are those Covid-related changes? Obviously, there may be more students who are—

**Scott Mackay:** To an extent. They are over the lifetime of the loan, and that loan can extend right out to 30 years in Scotland. There are longer-term assessments of the likelihood of the full amount being repaid.

**Liz Smith:** I am sure that my colleague will come back on some of the details of this, but I am interested as to what the changes are in the economic determinants. It is quite a substantial figure.

**Scott Mackay:** I do not do the detailed modelling myself, but my understanding is that the main reason for the change is a change in the discount factor that Treasury has asked us to apply in the model, which has reduced the level of RAB charge applicable in Scotland. That is my understanding.



If you are looking for real detail on how that modelling is calculated, we might be testing the limits of my understanding.

**Liz Smith:** It would be helpful to the committee if we could get a little detail. As you say, it is obviously very technical. I am sure that Michelle Thomson wants to come in on that.

I have another couple of questions, Michelle, so if you want to come in on that bit—it is up to the convener.

**Michelle Thomson:** Thank you. There is a bit more detail that it would be useful to have about how things are working specifically. I am aware that there has been a lot of reworking of the determination of the loan book at UK Government level. It has been through a number of iterations, and there is some sleight of hand there in accounting terms, which I am aware of, too. That is probably a technical term that I should not have used.

In some respects that does not matter. What interests me is why we should care. In other words, what, specifically, has this got to do with the Scottish budget? Why are we having this technical change of £298.7 million appearing for us—given that it is a loan book—while we do not have student loans in Scotland? That is what I do not understand.

**Scott Mackay:** We have some student loans in Scotland, but obviously the level here is significantly lower than in the rest of the UK. This change is distinct from the policy changes that have been made at a UK level on student loans.

As I said, as part of the way in which we are required to budget for student loans, we have to recognise up front the idea that we will not get the full amount of all those loans back. The level of impairment is calculated using the model that I mentioned. The level of impairment in Scotland is significantly lower than in the rest of the UK, as a result of the fact that the loans here are proportionally smaller and payment is more likely. Part of what has driven the policy change at a UK level is a recognition of the very high levels of write-off that were being reflected against the English loan book. That is not the same in Scotland. The repayment levels are higher in Scotland—

**Michelle Thomson:** I suppose that that is what I wanted to explore. I apologise for using the term “sleight of hand”—what I meant was that, in my understanding, there is an accounting mechanism to reflect that the loans are not truly loans in a traditional sense, and the public accounting of them is slightly different.

Notwithstanding that, I still do not understand the direct relevance to the Scottish budget of that

treatment, which has been applied across the board. I would also like to know how, specifically, it is being applied to the Scottish budget. Are those real numbers, in a technical sense? Are they really based on Scottish loans or are they an apportionment based on population share? In other words, is the number that we are discussing real, and what does it really mean for us?

**Scott Mackay:** Yes. It is a specific calculation on the Scottish loan book. It is not an apportionment of a level of impairment across loans. As I said, the model is quite complex. It tracks repayment rates in Scotland and factors those in to come to an assessment of what the likely repayment will turn out to be. As I said, the repayment level has historically been much higher in Scotland, which is a direct function of the level of loans here.

**Michelle Thomson:** I get that. I have a last wee question, because I am aware that my colleague wants to come back in and explore this area.

With regard to the loans themselves, I note what you are saying about the historical situation in Scotland; that applies to Scottish loans simply because they run over 30 years, as I understand it. It does not have any relationship to Scottish students who, for example, studied in England and have now come back and become Scottish taxpayers. I am assuming that it is simply a picture of the loan book at a point in time when those loans were taken out.

**Scott Mackay:** Yes—it is an assessment of the complete loan book for all students who draw down loans.

**Michelle Thomson:** So it really is just a technical thing. It is not—

**Scott Mackay:** It is a technical recognition. It is a non-cash estimate—those loans are not being written off at that point. It is just an assessment of what we think—

**Michelle Thomson:** For what it is worth, I think that it is very good to have that. It is a positive, and I wanted to get the understanding of it on the record, so I thank you for that.

**Liz Smith:** Mr Mackay is quite right—the matter is exceptionally technical. I am interested in the prediction that it will be more difficult in the years ahead to draw back as much money on student loans, because more people have gone through great difficulties after Covid. Is that really what you are saying?

**Scott Mackay:** Yes—it reflects the latest estimates, but they will change. The modelling changes every year, and there is a reassessment. If the economic circumstances change, the figures change.

12:00

**Liz Smith:** I understand that, but that aspect is very important because it has an effect on the numbers of students. We are trying to widen access, which we have made good progress on, so it has a big implication for future spending.

Minister, I want to ask you about your helpful table towards the end of your brief about the differences between the Covid and non-Covid spend on education. We had Alastair Sim at committee last week, who made the point that he is concerned that higher education is not sufficiently high up the Scottish Government's list of priorities when it comes to future spend. The figure for higher education student support in that table is £15 million. I have asked about that before, but I ask again: specifically, what is that figure for?

**Tom Arthur:** Okay. Have you got that detail in front of you, Scott?

**Liz Smith:** Sorry, it is in your table in paper FPA/S6/22/9/1. It is under your figures for education and skills. You have figures for central Government grants to local authorities, higher education, student support, Scottish Funding Council, learning and so on. That figure is against student support, which is all tied up in that support, so I wondered what that was.

If the convener agrees, I am happy for somebody to write to me about that.

**The Convener:** I would be happy for you to write to Liz Smith on that, minister.

**Liz Smith:** The broader point, minister, is that we can agree or disagree with Mr Sim about the future spend on higher education, but a serious issue has been presented to the committee from a lot of witnesses, which is that higher education really matters for the skills that we need if we are to address some of the problems in the economy. What is very helpful about the information that you have provided is that we have a better breakdown of that spending. I am interested in things such as student support, because that is an important aspect of encouraging younger people into higher education.

**Tom Arthur:** I appreciate the question—it is perfectly legitimate. If you are content, I would be happy to write back to you and send a copy to the committee.

**Liz Smith:** Thank you.

**Niall Caldwell (Scottish Government):** There is one thing to point out. That is a conservative estimate of the Covid spend to date in the table that I think that you are referring to. There are some examples where we would be fairly sure that the final figure for spend to December or spend in

terms of the full outturn will be significantly higher than that.

**Liz Smith:** That would be helpful. In one of the briefings that Professors Gerry McCormac and Sally Mapstone from Universities Scotland presented not long ago, they were very concerned about getting over this Covid period and providing extra student support to help with that, so I am interested to know what that figure is for.

**Tom Arthur:** I would be happy to provide you with an up-to-date picture. As Niall Caldwell said, that is a conservative estimate. I would be happy to give you a rounded picture of the support that has been provided, if that would be helpful.

**Liz Smith:** Thank you.

**The Convener:** Minister, under section C, "Scotland Reserve and Funding Position Details", you say:

"Despite this continually evolving, volatile position, reserve limits remain fixed. Those limits being a cap of £700 million with annual drawdowns normally restricted to £250 million for Resource and £100 million for Capital and Financial Transactions combined. As we are currently within a defined period of "Scotland Specific Economic Shock" (as set out in the Fiscal Framework) the annual drawdown limits are waived but the cap of £700 million remains."

As I mentioned in the previous session, John Mason said only last week that the University of Glasgow has greater reserves than the Scottish Government is allowed to have. That gives some perspective. Can you tell us, because the previous witnesses were unsure when asked directly, when that three-year period of Scotland-specific economic shock will end?

**Tom Arthur:** It expires at the end of next year.

**The Convener:** Basically, that is April 2023.

**Tom Arthur:** Yes.

**The Convener:** What difficulties are the reserve limits creating for the Scottish Government in delivering on its budget?

**Tom Arthur:** There are a number of difficulties. There was a view that one of the reserve's functions was to manage forecast error, but obviously there were borrowing powers to take into account, too. However, we have found that function increasingly difficult to deploy.

I referred earlier to underspends. Capital underspends, in particular, can emerge late in the year and, given that the reserve itself has a total limit of £700 million but an annual drawdown of £100 million in combined capital and financial transactions, there is a risk that, if a late slippage in capital occurs over a number of years, that will start to build up in the reserve. It will then become more challenging to deploy that money in the next

financial year, because of the £100 million cap. If there is more capital than FTs in the reserve, the £700 million limit gives less headroom for resource. Beyond that, the reserve itself is not finalised until we reach outturn, and we need to maintain headroom for that.

The limits create a number of challenges. You are limited in the amount of money that you can carry forward, which creates particular problems if you get late allocations and supplementary estimates. It is helpful when the Government allows that money to be carried forward into next year's budget, but that has been the exception rather than the rule, and we could find ourselves in a situation in which, if we were not able to carry the money forward via the reserve, we would not be allowed to deploy the resource in the most effective way. I am sure that we all want to get the best value for money, and with any supplementaries that come in very late on, we will want the maximum capacity either to deploy them immediately, if that is the best use of the resource, or to carry them forward, as we have done with the £120 million for local government. There is also, as I have said, the broader risk of capital build-up constraining the reserve. Moreover, as you will know, we are talking about a fixed amount that would have been calculated when Scottish Government budgets were, by dint of inflation, lower.

The limits therefore create a number of challenges for end-year management and the most effective deployment of resource and capital. I know that the committee has taken an interest in this area, and it will be an important consideration in the fiscal framework review.

Did you want to add anything, Scott?

**Scott Mackay:** I think that you captured the points very well, minister, but perhaps I should emphasise that any decision to store something in the reserve to deal with any future reconciliation impact will further constrain the amount of headroom to address end-year volatility. It is a very narrow margin that we are balancing on.

**The Convener:** Of course, inflation constricts things even more, because the lack of indexing means that what you can do with the reserve reduces every year.

I call Douglas Lumsden, to be followed by Daniel Johnson.

**Douglas Lumsden:** Hopefully I will be quick, convener.

I do not want to flog a dead horse, but I want to ask about the student loans situation. I am a new member, so this is all new to me, but have we seen this level of impairment in previous years or is it unique to this year?

**Scott Mackay:** We have seen high levels of impairment before, but I would just point out that, relatively speaking, the level is much smaller than that in the rest of the UK.

**Douglas Lumsden:** But we have seen this level of impairment in Scotland before.

**Scott Mackay:** Yes.

**Douglas Lumsden:** Following on from Liz Smith's questions, am I right in thinking that this all comes down to our predicting the amount of money that we get back to be lower? If so, is that because our economic performance turned out not to be as good as we thought it might be? Is it fair to say that?

**Scott Mackay:** I would just say that there are a lot of determinants in that estimate.

**Douglas Lumsden:** In that case, I will move on. The convener asked—

**Tom Arthur:** I recognise that there is significant interest in this area. Would it perhaps be helpful for us to write to the committee with further technical information, given the considerable interest? I am also happy to arrange any follow-up sessions that would be useful. How the economic modelling is devised is a highly technical matter. If the committee would be content with that, I would be happy to arrange for that to take place.

**The Convener:** Yes, I would certainly be happy with that, but I am not the one who is asking questions on this area—if Douglas Lumsden, Michelle Thomson and Liz Smith are happy, we can take that approach.

**Douglas Lumsden:** Yes, I would be happy with that.

I will move on. The convener asked right at the start about the £40 million reduction in the affordable housing supply programme. That programme involves partners such as housing associations and local authorities. Are they still bringing forward a long list of schemes and proposals, or have those dried up as well?

**Tom Arthur:** We work very closely with partners in delivering the programme. Earlier, I set out the broad, strategic framework. We are obviously considering the impact on resourcing in the context of the work that the Government is doing with partners to deliver housing, but the issue is not unique to Government. Private developers will be experiencing the same constraints around supply.

I reassure you that we have a clear commitment to our support for affordable housing, but the challenges that we are facing are ultimately outwith our control, although we certainly do what we can within the Government to help to address the issues around supply chains and logistics.

However, as I am sure that you appreciate, these are broad, global issues that are impacting many economies across Europe and North America.

**Douglas Lumsden:** Absolutely. I just wanted to check that there are local authorities coming forward with plans and that the money is there.

**Tom Arthur:** Yes, but the issue is ultimately not one about having the resource to deploy; it is about having the materials to spend the resource on. This is a broad reflection of the challenges around supplying and sourcing materials, which are obviously impacting the construction sector.

**Douglas Lumsden:** Will that resource still be available in the years to come?

**Tom Arthur:** Yes, we are absolutely committed to our targets on affordable housing.

**Douglas Lumsden:** Just another couple of things—sorry, convener, I know that time is an issue.

Can you give us a bit more information on the £24 million reduction due to underspends in the young persons guarantee?

**Tom Arthur:** Yes, certainly. It was a combination of reductions in demand-led expenditure, so it comes back to my earlier point about demand-led areas. It was also about a number of efficiency savings. We have had some of the lower lines of the budget for the young persons guarantee, but the largest element related to the national transition training fund; some of the costs are being reprofiled into next year.

**Douglas Lumsden:** If it is demand led, are we not telling people that it is there? Is there something else that we could be doing to make sure that the money that has been committed is spent?

**Tom Arthur:** That is a fair point. We want to see the maximum uptake of any scheme, particularly in relation to employability. We can continue to reflect on that. Some of it has also been about delivering the scheme more efficiently and another aspect, as I referred to, is the reprofiling into the next financial year.

**The Convener:** And if young people get jobs, they might not need to go on to such a scheme.

**Daniel Johnson:** I just want to briefly correct myself. I stated earlier that the delta was 15 per cent. I should have said 1.5 per cent. I was doing my mental maths too quickly. The flipside of that is that the Government is doing better by an order of magnitude than I was trying to claim.

**The Convener:** Thanks for that, Daniel.

**Michelle Thomson:** I have quick question on something that has come up a number of times in

a variety of these sessions about the budget process. I fully accept what you are saying—I think that most people would agree that it is somewhat inefficient. Do you collect any data about that? When I say “inefficient”, I mean these late changes at the 11th hour, where you think you that have spend, you allocate it and then you need to move it from budget pots or whatever—there is a whole variety of things.

Do you have any sense of the additional cost of doing that in terms of hours accrued, because that is a hard figure? You must be collecting days spread throughout all the departments that are working on it. Do you have any sense of that—apart from loss of hair?

**Tom Arthur:** I think that Niall Caldwell and Scott Mackay would agree with me that it is always a very busy and intense workload in finance but particularly as we get to this point of the year.

12:15

It will always be challenging, just by dint of the fact that we are approaching end of year. We can perhaps remove some of the complexity and what can at times be the capricious nature of the arrangements by having a better process for how the Treasury and the UK Government engage, so as to provide a bit more certainty. We had a Barnett guarantee in a previous year, and that was enormously helpful. That allows us to plan with more certainty and—touching on the points that we have discussed regarding the reserve—increased flexibility. That, in turn, allows us to think about ways to deploy funds more efficiently, rather than having to make what can be an artificial end-of-year deadline to make the budget balance and to ensure that we still have enough headroom in the reserve and that we are not underspending to a degree where we lose the funding. It is an intense process.

As for quantifying the resource and the operational costs within the SG, I do not have the figures to hand. I do not know whether we have those figures available.

**Scott Mackay:** I do not have a figure for the extent to which we have put through a transfer that was subsequently revised. I can say, however, that we are constantly looking to improve budget management and forecasting. That is a key effort. It is vital, in maximising effectiveness in budget management decisions, to have good-quality management information. We spend a lot of time reflecting on the annual process and on how we can improve the quality of the forecasting, which feeds through to making the process as efficient as possible. However, it is hugely complex. There are so many budget lines. There is staff turnover. We are constantly trying to engage, ensuring that

people have the right skills to provide the quality of management information that we are looking for.

**Niall Caldwell:** It is worth emphasising that every single financial decision that we make with ministers in the last three and a half months must take into account the Scotland reserve. That includes borrowing decisions, which must be deferred until the very end of the year, where possible, to ensure that the limit is not breached. It is a risk with any volatility in relation to funding or spending decisions. That is the key frame, which adds a lot of time to the processes.

**Michelle Thomson:** In asking this question, I acknowledge that the year-end processes are complex at this level across this number of budget lines. That is taken as a given. We get a lot of commentary that the way in which the fiscal framework works is inefficient, and that means that there is a cost to the public purse. I suppose that is what I am driving at: the constant changes—stuff coming in from left field—are incurring a cost, and that is inefficient for public sector expenditure. That is the reason why I am asking this, rather than any other reason.

**Tom Arthur:** That is a very fair point to make. I do not think that the current set of arrangements is optimal, and we can hopefully remedy that through the fiscal framework review.

**The Convener:** I thank colleagues around the table for their questions, and I thank the minister for his evidence.

Item 3 is formal consideration of the motion on the Scottish statutory instrument. I invite the minister to move motion S6M-03069.

*Motion moved,*

That the Finance and Public Administration Committee recommends that the Budget (Scotland) Act 2021 Amendment Regulations 2022 be approved.—[*Tom Arthur*]

*Motion agreed to.*

**The Convener:** I will now suspend the meeting briefly to allow for a changeover of officials.

12:19

*Meeting suspended.*

12:20

*On resuming—*

### **Scottish Landfill Tax (Standard Rate and Lower Rate) Order 2022**

**The Convener:** Item 4 is an evidence-taking session with the Minister for Public Finance, Planning and Community Wealth on the Scottish Landfill Tax (Standard Rate and Lower Rate) Order 2022. Mr Arthur is joined by Mr Robert

Souter, senior tax policy adviser, Scottish Government. I welcome Mr Souter to the meeting and invite Mr Arthur to make a short opening statement.

**Tom Arthur:** The order specifies the standard rate and lower rates for Scottish landfill tax, consistent with the rates in the 2022-23 Scottish budget as published on 9 December 2021. It sets out that the standard rate will increase from £96.70 to £98.60 per tonne, while the lower rate, for less polluting inert materials, will increase from £3.10 to £3.15 per tonne. The proposed rates will come into effect from 1 April 2022.

Committee members will wish to note that the rates match landfill tax rates for 2022-23 in the rest of the UK, as confirmed in the UK and Welsh budgets. The Scottish Government is continuing to act to avoid any potential for what is referred to as waste tourism as a result of material differences between the tax rates north and south of the border. The increased rates also provide appropriate financial incentives to support delivery of our ambitious waste and circular economy targets.

I will conclude there, convener. I am happy to take questions.

**The Convener:** As John Mason will remember, we have had quite a number of debates on waste tourism in previous years. I cannot imagine that we will delve into that today, but who knows?

I appreciate why the Government has decided to keep the rates the same as those in the UK, but surely they should have gone up by at least the rate of inflation. That would not have had many people trucking over the border.

**Tom Arthur:** It is a fair point, and obviously we will continue to keep the rates under review. However, we are on a journey towards banning biodegradable municipal waste by the end of December 2025, and we will consider the rates in the broader context of our actions to reduce waste and move to a circular economy. For the reasons that I set out in my opening remarks, we are continuing to ensure parity with rates elsewhere in the UK to avoid the risk of waste tourism emerging.

**The Convener:** As the committee has no further questions, I thank the minister for his evidence.

Item 5 is formal consideration of the motion on the instrument. I invite the minister to move motion S6M-03203.

*Motion moved,*

That the Finance and Public Administration Committee recommends that the Scottish Landfill Tax (Standard Rate and Lower Rate) Order 2022 be approved.—[*Tom Arthur*]

*Motion agreed to.*

**The Convener:** I thank the minister and his officials for their evidence today. We will in due course publish a short report to Parliament setting out our decisions on both the spring budget revision and the order that we have just considered.

That concludes today's meeting. The next item on our agenda, which is consideration of our work programme, will be discussed in private.

12:23

*Meeting continued in private until 12:41.*

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