



OFFICIAL REPORT
AITHISG OIFIGEIL

Finance and Constitution Committee

Wednesday 21 March 2018

Session 5



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FINANCE AND CONSTITUTION COMMITTEE
11th Meeting 2018, Session 5

CONVENER

*Bruce Crawford (Stirling) (SNP)

DEPUTY CONVENER

*Adam Tomkins (Glasgow) (Con)

COMMITTEE MEMBERS

- *Neil Bibby (West Scotland) (Lab)
- *Alexander Burnett (Aberdeenshire West) (Con)
- *Willie Coffey (Kilmarnock and Irvine Valley) (SNP)
- *Ash Denham (Edinburgh Eastern) (SNP)
- *Murdo Fraser (Mid Scotland and Fife) (Con)
- *Emma Harper (South Scotland) (SNP)
- *Patrick Harvie (Glasgow) (Green)
- *James Kelly (Glasgow) (Lab)
- *Ivan McKee (Glasgow Provan) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Derek Mackay (Cabinet Secretary for Finance and the Constitution)
Scott Mackay (Scottish Government)

CLERK TO THE COMMITTEE

Jim Johnston

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Finance and Constitution Committee

Wednesday 21 March 2018

[The Convener opened the meeting at 10:00]

Decision on Taking Business in Private

The Convener (Bruce Crawford): Good morning and welcome to the 11th meeting in 2018 of the Finance and Constitution Committee. I remind everyone to switch their mobile phones to silent.

Agenda item 1 is a decision on taking business in private. Do we agree to take items 6 and 7 in private?

Members indicated agreement.

Subordinate Legislation

Budget (Scotland) Act 2017 Amendment Regulations 2018 [Draft]

10:00

The Convener: Agenda item 2 is consideration of a Scottish statutory instrument that seeks to amend the Budget (Scotland) Act 2017. We will deal with the motion seeking our approval of the regulations under agenda item 3, but first of all, we will have an evidence-taking session on them. I welcome to the meeting Derek Mackay, the Cabinet Secretary for Finance and the Constitution, and Scott Mackay, head of finance co-ordination, Scottish Government, and I invite the cabinet secretary to make an opening statement, if he so wishes.

The Cabinet Secretary for Finance and the Constitution (Derek Mackay): Thank you, convener, and good morning.

The spring budget revision provides the final opportunity to formally amend the 2017-18 Scottish budget. In this year's spring budget revision, there are four different types of amendments. First, there are a few funding changes. Secondly, there are a number of technical adjustments that have no impact on spending power. Thirdly, there are some Whitehall transfers. Finally, there are some budget-neutral transfers of resources between portfolio budgets, including a modest budget redirection to ensure that we maximise our available budget. The net impact of all these changes is an increase in the approved budget of £421.4 million.

Table 1.1 on page 5 of the supporting document shows the approved budgets following the autumn budget revision and the changes sought in the spring budget revision. The supporting document to the spring budget revision, and the brief guide prepared by my officials, provide the background on the net changes.

The first set of changes, which increases the budget by £141.7 million, has been allocated over a number of lines as detailed in the brief guide.

The second set of changes comprises a number of technical adjustments that are mainly non-cash and therefore budget neutral and which have a net positive impact of £271.9 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 the final outturn that will be reported in our annual accounts.

Thirdly, with regard to Whitehall transfers and allocations from Her Majesty's Treasury, there is a

net positive impact on the budget of £7.8 million from a number of small transfers.

The final part of the budget revision concerns the transfer of funds, within and between portfolios, to better align the budgets with profiled spend. The main transfers between portfolios are noted in the spring budget revision supporting document and the guide to the SBR.

As we approach financial year end we will, in line with normal practice, continue to monitor forecast outturn against budget and, whenever possible, seek to utilise any emerging underspends to ensure that we make optimum use of the resources available in 2017-18 and manage the necessary carry-forward to meet the additional spending commitments for 2018-19, as I disclosed at stage 1 of the Budget (Scotland) Bill for 2018-19. An additional £34.5 million of funding for local government, which was announced at stage 1, does not appear in the spring budget revision because of timing issues, but it appeared in the local government finance order and will appear in the outturn statement.

In line with the budget process review group's recommendations, my officials have included in the brief guide sent to the committee an indication of the forecast outturn position at 31 December for the spring budget revision. That brief guide to the spring budget revision, which my officials have prepared, sets out the background to and details of the main changes proposed, and I hope that colleagues have found it helpful.

The Convener: Thank you, cabinet secretary.

I note on page 4 of the Scottish Parliament information centre briefing that has been provided to the committee a reference to an underspend of £29 million that has been surrendered from the more homes budget. What is the reason for that and what impact, if any, will it have on the Government's efforts to improve housing supply in Scotland?

Derek Mackay: This is not about a lack of spending on housing commitments with regard to the more homes budget; it is more to do with people selling properties and those transactions coming back to us through, for example, the open market shared equity scheme or help-to-buy scheme. We are ahead of what had been forecast. People have been selling their homes, and the Government gets a share of that money. It is therefore supplementary income, so there is no detrimental impact on our budgets.

The Convener: So what you are saying is that the £29 million is over and above the amount allocated in the budget.

Derek Mackay: Essentially yes, because properties have been sold and we get a share of those sales.

James Kelly (Glasgow) (Lab): I note the cabinet secretary's explanation, but I am still concerned about this. I see in our notes that the money relates to the more homes budget, which indicates that it is about supporting housing supply. This is the second year in which this has happened. Last year, there was an underspend of £21.5 million on housing and, this year, it is £29 million. Given the scale of the housing challenges facing us, with thousands on waiting lists and people rough sleeping, that underspend is a real concern for us.

Derek Mackay: I would understand your conclusion if we were not spending money on housing. Let me put this another way: this is extra income that we have received from more people than expected selling their homes through various financial schemes and the Government getting back its share of the investment in those schemes. It is not that we are not spending enough on housing; this is extra income that was unforeseen, that was above what we had anticipated and which is then classed as an underspend.

On the wider subject of housing, in this, of all years, we have the substantial uplift in funding for affordable homes, the investment in new housing and homeless support through the £10 million for the ending homelessness together fund. I reassure Mr Kelly that this is not an underspend with regard to housing; we are making massive investment, we are doing more on capital and there is specific revenue support for housing. This is a very particular issue of certain transactions generating more income than had been forecast. After all, you cannot absolutely forecast the number of properties that will be sold and our share of the return in that respect.

James Kelly: So where has the £29 million been allocated?

Derek Mackay: Your papers show where the extra resources have been allocated and where the underspends are. As I have said, the spring budget revision is about the allocation of those resources.

James Kelly: There is no direct read-across with regard to the £29 million. As a constituency MSP, you will know for yourself the scale of the housing crisis. If you had an extra £29 million, why did you not allocate it to housing?

Derek Mackay: Because we have just approved a budget that takes the amount of capital investment to over £700 million for meeting the target of building 50,000 affordable homes. Having met our previous target of 30,000, we are now perfectly on track to deliver 50,000. We are also

delivering a new fund for tackling homelessness, and we are supporting local authorities. I would therefore argue that there are adequate resources in the housing portfolio.

If we were talking about not being able to spend money on housing, which is a separate issue, I would get the charge being made against us that we should be doing more. However, this is additional revenue, and the rest of the document makes it perfectly clear where it is being spent and what the budget revisions are.

James Kelly: As I have said, I did not see a direct read-across. My point, though, is still relevant: given the scale of the challenge, you should have spent the extra money on housing. I note that the *i* newspaper this morning is reporting that a fifth of people with disabilities in Scotland are living in homes that are not fit for purpose. In fact, some people are not even able to wash themselves in their own homes. That is just one example of the crisis that we are facing, and I would certainly argue that any extra money you might have had should have been allocated to housing.

Derek Mackay: I understand the point, and it is a fair point to make. However, I would also point out that Labour's alternative budget, as presented in Parliament, asked me to do nothing like that. It lay out a number of budget priorities, but I am afraid that more money for housing was not among them. What is being argued today is therefore a shift from the position presented in the Labour budget.

I am satisfied that these revisions reflect our priorities. There certainly should be no concern about any lack of ability to spend money on housing.

The Convener: I understand the reasons for James Kelly's question but, just moving from political to technical matters, I note that in my own question I called this money an underspend. There seems to be a bit of a technical quirk in how we describe this. Could we find a better way of describing this in future budgets? It is appropriate for James Kelly to ask about where additional moneys should be spent, but why has this particular amount of money been called an underspend, when it is not really an underspend?

Derek Mackay: I suppose that it is a variation to the published budget. We need to make sure that what we approve as a Parliament aligns with what is actually happening. In any case, convener, you are right; a variation that results in more income is different from an underspend.

The Convener: Perhaps we need to find some other way of describing this in future to ensure that people are clearer.

Derek Mackay: That is a fair point.

The Convener: It does not pick up on the issue raised in James Kelly's question, but it would certainly help with our technical understanding.

Ivan McKee (Glasgow Provan) (SNP): I have two short follow-up questions. Is it not true to say that this £29 million is a symptom of Government policy being more successful than you had expected?

Derek Mackay: It depends on your view of buying and selling houses, of course, but you might say yes, if you think that it is good that financial support has been available to allow people to purchase and then sell on properties and that the Government has been able to get a percentage share of those sales. It is slightly different from the English scheme, but you could view that as a symptom of success.

Ivan McKee: Is it not also true that if, as James Kelly suggests, you were to spend that £29 million on housing, you would have to reduce spending elsewhere in the budget?

Derek Mackay: That might be the outcome if you were to hypothecate this sort of spend. My point is that this whole revision is about the Parliament reallocating resources and making these transfers, which is what we are doing. I understand the point that has been made, but as I have said, we have made budget choices that are massively in favour of housing, particularly with regard to that capital investment.

That is the nature of the underspend. The brief guide that we have produced could draw that out further, but given the quantity and quantum of revisions, it would be a bit much to explain each one. Nevertheless, it might be more helpful if we did so with the more significant quantum, and I will give further thought to the matter.

Alexander Burnett (Aberdeenshire West) (Con): This is the second year in which this underspend was unforeseen, and the amount in question is relatively similar. Will it be unforeseen next year, too?

Derek Mackay: Probably. I have been party to this committee saying, collectively, that the one thing you know about economic forecasters is that they all get their forecasts wrong. They cannot get them absolutely right. I wish they could, because it would resolve a number of variables.

Given that we do not have a crystal ball that tells exactly what is going to happen in the housing market, it will be hard to get this exactly right. We just do not know. It is good that these schemes are designed to give us a percentage share, because if the property market grows and becomes more buoyant, the Government—and therefore the taxpayer—will benefit from that

investment. For all those reasons, though, these things are hard to predict, as the Office for Budget Responsibility will tell you in relation to transaction taxes—and as I would say in relation to our own transaction taxes. At least we are in positive rather than negative territory.

Neil Bibby (West Scotland) (Lab): I agree with what has been said about the definition of underspend, but I want to stay on the £29 million that has been surrendered from the more homes budget. James Kelly said that that money could have been spent on housing. How many homes would you have been able to build with it?

Derek Mackay: That is hard to quantify, especially given that it is the capital investment that makes the difference in home building. That capital investment is over £700 million. Arguably, the more interesting question is: which of the budget revisions would you not support?

Neil Bibby: I was just asking how many more homes you could have got for £29 million.

Derek Mackay: If you want me to cost such a proposition, I will, but I do not know the answer off the top of my head. That should not surprise you, Mr Bibby.

Neil Bibby: I take it from that, then, that you did not consider spending the £29 million underspend on more homes.

Derek Mackay: I considered spending more than £700 million on helping to build 50,000 new affordable homes, presenting that to Parliament, surpassing our targets, working in partnership with—

Neil Bibby: I am going to take that as a no.

10:15

Derek Mackay: Let me tell you this: I am not downplaying the importance of housing. The Government is making a priority of capital investment, and housing is quite a significant investment. That should be welcomed. Do I think that we need the amount of money that we got from this transaction to meet our target? No, I do not, because our direction of travel will meet our commitment. The communities secretary believes that, too. It will require further capital investment year on year, but there is a plan.

The cost per unit is something that I want to keep a close eye on. However, the impact on land supply and all other related matters are significant, too, and I am afraid that the situation is a bit more complex than just working out how many more houses £29 million can get you. There is a lot to deal with, including land supply, planning, the cost of delivering units, where in the country those units are, how they are distributed and what local

authorities and housing associations can do with them. The multi-year revenue planning assumption that has been given to local authorities gives me confidence that I do not need this extra amount. In fact, you could, if you wish, describe this money as over-recovery.

Scott Mackay (Scottish Government): Obviously there is a lead time associated with the capital programme, and stepping it up in the short term is not a straightforward matter. The larger programme remains fully funded as we move forward.

The Convener: I thought that we had got to the end of housing, but I think Ivan McKee has another supplementary on the matter.

Ivan McKee: We have established that this money is not sitting in a shoebox somewhere and that it has already been allocated to another budget line. If we are going to work out how many houses it might have provided, will you also calculate how many fewer nurses or teachers could be employed if you were to reallocate that money from another budget line to housing?

Derek Mackay: This is one of the most exciting debates that I have ever had about the spring budget revision. My answer to your question is yes, you are correct: you would have to, as part of the overall budget process, pick out the other things that you would not want to do.

Neil Bibby: In relation to Whitehall transfers—and specifically the £1.1 million in relation to the tampon tax—what women's organisations will benefit from that cash, and what goals will you set for the use of that transfer?

Scott Mackay: I am not sure that I have the breakdown here.

The Convener: Do you want to come back to us on that?

Derek Mackay: Yes, I would want to check that, because ordinarily such things are not hypothecated or ring fenced. Obviously, we have our own initiatives on this matter, and I would want to check our line of sight between this transfer and what we are doing. I will respond in writing to the committee.

Neil Bibby: That would be helpful. After all, it is a substantial sum of money.

Alexander Burnett: My question is about the economy, jobs and fair work section of the supporting document, but first of all, I should note my entry in the register of members' interests in relation to renewables.

I see that £8 million is going to wave energy Scotland. Can you provide a bit more clarity about what that is, what its total budget is and what you are expecting to get for that?

Derek Mackay: The fact is that we have had no progress on wave energy, and my understanding as far as that portfolio is concerned is that the money is for developing technology on the north-west coast of Scotland, supporting that exploration and those jobs and assisting with the manufacture of wave devices. If the member wants more specific detail about the projects, I can provide that through the economy secretary, but essentially it comes under that portfolio and is for supporting wave technology, which has not delivered on our aspirations in the past.

Murdo Fraser (Mid Scotland and Fife) (Con): I want to ask about two items, the first of which relates to learning and the £16 million increase in funding to deal with Scottish Qualification Authority resource pressure. Can you give a little bit more detail about that?

Derek Mackay: I will ask Scott Mackay to cover that.

Scott Mackay: Essentially, it will cover the cost of additional funding requirements in delivering the national qualifications and curriculum for excellence and the changes that are being made to assessment processes to ease teacher workload.

Murdo Fraser: Is it expected to be a one-off? Are these not being seen as on-going pressures?

Derek Mackay: To be honest, I suspect that there will be on-going pressures. I have been trying to ensure that, right across the public sector, we are efficient and that we are driving down costs while not compromising on quality. As I have said, though, I suspect that there will be on-going pressure in this respect. The question for Government, then, is whether we respond by increasing funding over the budget period as a matter of course. I see this as a pressure that I am responding to mid-year.

Murdo Fraser: Thank you—that is helpful.

Secondly, I note the £50 million financial transaction with regard to Burntisland Fabrications, which as we know is the loan support that has been offered to the company. Do you know how much of that has been drawn down to date?

Derek Mackay: I do not have an update on that. I appreciate that the committee might well want more detail on this matter sooner rather than later, but things are quite sensitive at the moment, with live discussions taking place. It is a very important but fluid area, and I think that the committee will want to return to it.

Emma Harper (South Scotland) (SNP): This question might be at a wee bit of a tangent, but this is, as we know, the spring budget revision,

and I note that the internal transfer section of the document refers to a

“transfer of £5.3 million from Economy, Jobs and Fair Work portfolio to Rural, Economy and Connectivity portfolio to assist funding of Highland and Islands Enterprise capital projects”.

Given that we are having such an exciting debate about this spring budget revision, I want to highlight my interest in the proposed south Scotland enterprise agency, which will be the south of Scotland’s equivalent to Highlands and Islands Enterprise. Will the capital investment potential with regard to roads and rail infrastructure be a consideration in future budgets, and, if so, what portfolios will that impact on?

Derek Mackay: It will largely come under Keith Brown’s economy brief, but Fergus Ewing, with his responsibility for connectivity, will have a role and take an interest, too. I imagine that transfers will be made in the future, even when the new body is established.

Emma Harper: It is helpful to know that, given the many local issues around the A75, A76 and A77 at the moment. Thank you.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): I noted two small items under the rural economy and connectivity heading: first, a transfer of £5 million to support the European Union futures information technology programme; and a second smaller transfer of £700,000 to support screens for events at Hampden Park. Do you have any details in that respect, particularly on what the £5 million for the futures IT programme is delivering for us?

Derek Mackay: What page is that on in the budget revision document?

Willie Coffey: The transfer is referred to in the SPICe paper, and it is also set out on page 74 of the supporting document.

Derek Mackay: I will have to follow up on that one. I do not have any further information on that line.

Willie Coffey: My second question was about the £700,000 transfer to support big-screen developments at Hampden Park. What is the background to that? It is set out on page 74, too.

The Convener: I suspect that you will have to come back to us on that, too, cabinet secretary. We are talking about a fine level of detail.

Derek Mackay: I just wanted to check both matters. On your specific inquiry about the £700,000 for funding the purchase of giant screens at Hampden Park in support of UEFA Euro 2020, I am not an expert, but I would suggest that that is for funding the purchase of giant screens at Hampden Park in support of UEFA

Euro 2020. I appreciate that it will be a bigger-screen TV than you get in the average household, but it is for showing these big events.

Willie Coffey: The reason why I am asking is that there are big screens at Hampden already.

Derek Mackay: I hear what Mr Coffey is saying, but I have to say that I did not come prepared to talk about that line in the budget revision document. Again, if the member requires further information, I will happily get those with responsibility for the portfolio to provide it.

The Convener: Can I say no to that offer, cabinet secretary? I call James Kelly.

James Kelly: Let us hope that Scotland play better on these bigger screens when they get installed.

I have a technical question in relation to the Whitehall transfers.

Derek Mackay: So it is not going to be a political one.

James Kelly: Would I ever do that?

In relation to Whitehall transfers, I noted in a table in the SPICe paper the figure of £47 million in relation to teachers' pensions. Can you give me some background on that?

The Convener: It is also mentioned on page 98 of the supporting document with regard to annually managed expenditure.

Scott Mackay: It is an adjustment to bring the pensions into line with the latest forecasts. We draw down the budget cover from HM Treasury as part of the annual AME budget process.

James Kelly: I wonder whether you could write to the committee with some additional information on that. After all, university lecturers' pensions are a big issue at the moment, and I am interested in that large transfer of £47 million. I am not trying to make a political point—I am just interested in the background.

The Convener: I am sure that you will come back to us on that, cabinet secretary.

Derek Mackay: There is no difference or variation—this is just the normal state of affairs. We get the forecast, and then we draw down the money from AME. It is covered through those transfers.

Scott Mackay: The transfer for national health service and teachers' pensions AME is due to changes in indexation and equalisation work that has been carried out by the Treasury. It is a technical adjustment to the forecast.

The Convener: That is all that Mr Kelly needs. Thank you.

As there are no other questions, we move to agenda item 3, which is consideration of motion S5M-10915.

Motion moved,

That the Finance and Constitution Committee recommends that the Budget (Scotland) Act 2017 Amendment Regulations 2018 [draft] be approved.—[*Derek Mackay*]

Motion agreed to.

Scottish Landfill Tax (Standard Rate and Lower Rate) Order 2018

The Convener: Agenda item 4 is consideration of a statutory instrument that seeks to revise the landfill tax rates and bands for 2018-19. Before we come to the motion seeking our approval of the order, we will have an evidence-taking session.

Again, we are joined by Derek Mackay, the Cabinet Secretary for Finance and Constitution, who is joined for this item by David Kerrouchi, policy adviser, Scottish Government. Would you like to make a statement, cabinet secretary?

Derek Mackay: I have just a very brief statement on what is a technical matter, convener.

The order specifies the standard and lower rates for Scottish landfill tax as set out in the draft budget. These proposed rates ensure that the tax increases are in line with inflation and match the planned United Kingdom landfill tax rates for 2018-19 as provided for in the Finance Act 2016. In setting these rates, I am not only acting to avoid potential waste tourism resulting from any material differences between the tax rates north and south of the border but providing appropriate financial incentives to support the delivery of ambitious waste and circular economy targets, including the zero-waste goal of no more than 5 per cent of total waste going to landfill by 2025. The Scottish Fiscal Commission forecasts that we will generate revenue of £106 million from the Scottish landfill tax in 2018-19.

The Convener: I have just one question, cabinet secretary. I recognise that the order proposes to match UK landfill tax rates, with the intention of minimising the potential risk of waste tourism. If the UK Government were to change its rates at short notice, would you be able to respond to that? How would you seek to react if that were to happen?

Derek Mackay: We would consider the matter. Whether or not we consulted on it would be up to Government, but I would need to return to the committee with another statutory instrument if I were to propose any change. I do not think that it has been the norm for the UK Government to change this sort of thing out of sync, and I would expect that continuity to continue.

Alexander Burnett: Obviously we are supportive of the landfill tax's aims and of what it is trying to achieve, but one of the unfortunate consequences has been the increase in fly-tipping. Will the increased revenue coming from the tax go to those—mainly the councils—who have to deal with this issue?

Derek Mackay: We do not hypothecate this money, although one positive element is the credit that we give to the Scottish landfill communities fund, which is slightly more generous than the UK equivalent. That rate will continue to be higher.

The money itself contributes to the overall budget. We are, of course, doing more about environmental action, zero waste, support for local government and those kinds of wider objectives. The income from the landfill tax is not hypothecated, but I would argue that the range of our other interventions is in part funded and supported by it.

The Convener: As there are no more questions, we move to agenda item 5, which is consideration of motion S5M-10850.

Motion moved,

That the Finance and Constitution Committee recommends that the Scottish Landfill Tax (Standard Rate and Lower Rate) Order 2018 be approved.—[*Derek Mackay*]

Motion agreed to.

The Convener: The committee will in the coming days publish a short report to Parliament, setting out our decision on both orders.

I thank the cabinet secretary and his officials for their attendance. As agreed at the start of the meeting, we will take the next two items in private. I therefore close the public part of this meeting.

10:32

Meeting continued in private until 10:40.

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

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