



The Scottish Parliament  
Pàrlamaid na h-Alba

## Official Report

### FINANCE COMMITTEE

Wednesday 30 September 2015



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### **FINANCE COMMITTEE**

#### **24<sup>th</sup> Meeting 2015, Session 4**

#### **CONVENER**

\*Kenneth Gibson (Cunninghame North) (SNP)

#### **DEPUTY CONVENER**

\*John Mason (Glasgow Shettleston) (SNP)

#### **COMMITTEE MEMBERS**

\*Jackie Baillie (Dumbarton) (Lab)

\*Richard Baker (North East Scotland) (Lab)

\*Gavin Brown (Lothian) (Con)

\*Mark McDonald (Aberdeen Donside) (SNP)

\*Jean Urquhart (Highlands and Islands) (Ind)

\*attended

#### **THE FOLLOWING ALSO PARTICIPATED:**

Stephen Boyd (Scottish Trades Union Congress)

Jamie Hepburn (Minister for Sport, Health Improvement and Mental Health)

Dr Gerry McCartney (NHS Health Scotland)

Ruchir Shah (Scottish Council for Voluntary Organisations)

#### **CLERK TO THE COMMITTEE**

James Johnston

#### **LOCATION**

The David Livingstone Room (CR6)



## Scottish Parliament

### Finance Committee

*Wednesday 30 September 2015*

*[The Convener opened the meeting at 10:00]*

### Decision on Taking Business in Private

**The Convener (Kenneth Gibson):** Welcome to the 24th meeting in 2015 of the Finance Committee. We appear to be two members down, but neither has given an apology so I take it that they will deign to appear at some point.

Our first item is to decide whether to take items 5, 6 and 7 in private. Do members agree?

**Members** *indicated agreement.*

## Draft Budget Scrutiny 2016-17

10:00

**The Convener:** Our second item is to take evidence on the Scottish rate of income tax, as part of our scrutiny of the draft budget for 2016-17. I welcome to the meeting Dr Gerry McCartney, who is the head of the Scottish public health observatory in NHS Scotland; Stephen Boyd, who is assistant secretary to the Scottish Trades Union Congress; and Ruchir Shah, who is policy manager for the Scottish Council for Voluntary Organisations.

Members have received copies of the witnesses' written submissions, so we will go straight to questions from the committee. You all know the drill: I will ask some opening questions and then open out the questioning to colleagues around the table.

My first question is for Dr McCartney, but other members of the panel can comment on the question and on the other witnesses' submissions. On the SRIT, you say that

"the flexibility afforded to the Scottish Parliament in relation to SRIT facilitates only modest changes to income inequality"

and you argue that we need enhanced regulation and taxation to reduce inequalities in income, wealth and power across society. Your submission goes on to say that you

"would therefore support the introduction of SRIT at a rate greater than 10%"

but you are a wee bit coy on how much higher that rate should be. What rate would be appropriate at this time?

**Dr Gerry McCartney (NHS Health Scotland):** I am going to continue to be coy on that point, if that is all right.

You might be wondering why a Scottish health board is engaged in the debate at all. Our role is to reduce health inequalities in Scotland and to support Government and other agencies in reducing health inequalities. Members will be aware that health inequalities in Scotland are wider than they are anywhere else in western and central Europe, and that thousands of people die prematurely as a result of those inequalities. Health inequalities are, in turn, driven by inequalities in income, wealth and power in society, so we need to do everything that we can to reduce those inequalities. We have been tasked by the Scottish Government and our board to look at the policies and practices that are most effective at reducing health inequalities.

The basis of our evidence is in-house modelling work that looks at the impact of a range of health

interventions around alcohol and smoking, and at upstream interventions in the economy, including the SRIT. The modelling concluded quite clearly that interventions that focus on financial aspects—increasing the minimum wage and the rate of social security benefits, such as jobseekers allowance and income support, and increasing the Scottish rate of income tax—would all be effective at reducing health inequalities by redistributing income to varying degrees. The more you redistribute, the greater the impact on reducing health inequalities. That is the basis of our evidence; I am happy to talk to members about how we did the modelling and how robust it is.

**The Convener:** I know that that is the basis of your evidence because I have your paper in front of me, but you still have not told us why you have not come up with a figure. One of the reasons why we are taking evidence is that we are trying to make recommendations to the Scottish Government on what the SRIT should be and it is not really helpful when people do not come up with a figure. Given that you have said that the SRIT should be increased, why have you not said that it should go up by 1p, 2p, 3p or whatever? That seems to be a bit strange. You have made the argument but you have stopped just before the finishing line.

**Dr McCartney:** We were limited in the modelling. I can only speak on the evidence that we have available. In my role as a public health consultant, I cannot speculate.

The evidence that was available to us was based on modelling that had been done by the University of Stirling, which modelled different interventions in the financial system, including a 1p variance in the Scottish rate of income tax. It is that 1p variance that we were able to feed into our triple-i—informing investment to reduce health inequalities in Scotland—model, so I can tell you that a 1p increase in the standard rate of income tax would reduce the relative index of inequality—a measure of inequalities in health—by half a percentage point over 20 years. That is what we have got in the model. You could speculate that increases beyond that would reduce it by more, but the model gives a figure that allows us to get a handle on the magnitude of the impact of a variance in income.

We are certainly looking to do a further range of income interventions in the next phase of the tool, and we can come back next year and report on that, but we do not at this point have modelling of the financial implications of different interventions.

**The Convener:** That is fair enough. What is Ruchir Shah's view of the overall philosophy that Dr McCartney has spoken about? Your paper suggests that you agree with Dr McCartney.

**Ruchir Shah (Scottish Council for Voluntary Organisations):** I want to give a caveat first. It has been difficult for us to generate a wide-ranging discussion within the third sector because the topic it is so technical and confusing due to the various transitional arrangements that are in place before the more full arrangements, that are currently being debated by the United Kingdom Parliament, come in. However, many of our members recognise that, in principle, the tax regime will be a difficult balance between simplicity, effectiveness and fairness. The overriding concern for many of our members is the impact of tax on some of the most vulnerable and disadvantaged people in Scottish society, and how much their situation is at the forefront in deciding—and in discussions about the decisions—what level of tax is set.

With that caveat in mind, and despite the fact that we not been able to generate a discussion, we have spoken to our policy committee and to the third sector forum, which brings together some of the sector leaders. There is a clear interest in ensuring that tax will be accountable and transparent, but there is not at this stage much interest in giving advice on the level that it should be set at. The only thing that we are able to sense is that the people in the sector to whom we have spoken do not want tax to be reduced from the current rates when the new regime comes in next year. Their analysis is that, because of austerity and the impact on public services, they do not want public services to suffer. There is no strong or coherent view among people in our sector about whether tax should be raised; I can understand why they would not want to put forward that position. People might privately hold a view on whether to increase or maintain the tax level, but there is no formal position from the members that we have spoken to about raising taxes.

**The Convener:** Your submission states:

"If extra money is raised through the SRIT, it must be used to reduce inequalities".

It also states that

"politicians and others need to change the conversation around tax, in order to make sure that we can build a tax system that is sufficient for the needs of everyone in society. We need to make the case for what tax is for and the positive things it brings to our whole society—as a way to reduce inequality and to support social security and public services."

Later in the paper, you say that

"the Cabinet Secretary for Finance could say, 'yes, we are going to increase tax to make the SRIT 11p, but with this extra £400m we are going to take a specific stated action in order to improve the lives of these specific people across our society'".

I seem to remember contesting an election in 1999 in which that was done, and it did not go down particularly well with the electorate. Is it the case that people do actually understand what tax is for, but do not themselves want to pay it, or pay more of it?

**Ruchir Shah:** I do not think that that is the case. People are getting confused. Let us think about where tax is held and at what level. We will be moving into a situation in which employment-related income tax will be devolved to an extent during the transitional time next year, and then—I hope—we will move to broader devolution when the Scotland Bill is enacted. However, savings tax and pensions tax will remain reserved; the situation is very fragmented and will be extremely confusing for the general public. Some of the people whom the third sector supports are people who are furthest away from the centre of those discussions, and it will be even more confusing for them: they will just think of it as the kind of stuff about which decisions are taken at Holyrood or Westminster, and believe that they just have to live with it. It is a bit of an issue.

Our key concern is that we talk almost as though those who are not taxpayers are somehow not valued members of society. Many people whom we support are a bit concerned about that. There is a lot of rhetoric about how we need to bear in mind what taxpayers do and about where taxpayers' money is spent. The language can be very selective and disengaging for many people who are directly supported by third sector organisations.

**The Convener:** I turn to Stephen Boyd. The STUC's submission states that

"The STUC is concerned at the impact of a tax increase on lower wage workers".

We had a philosophical discussion last week about whether there should be such concern. Lucy Hunter Blackburn argued that even with the SRIT, tax increases would, in fact, help the people at the lower end in relative terms.

The STUC also makes clear in its submission its view that

"The Scottish Government should accompany any decision to leave SRIT at 10p in 2016-17 with a comprehensive statement on tax policy in the future."

So, the STUC has said that the SRIT should remain at the same level but that the Scottish Government should explain what it proposes to do in the future. The submission goes on to say:

"It is feasible that in future years the STUC will propose an increase in SRIT if the economic circumstances dictate that low earners could more easily bear an increase."

I am a bit confused about why the STUC says that the Scottish Government should make a

comprehensive statement on tax policy in the future, when it seems that the STUC may or may not advocate an increase in SRIT depending on economic circumstances. It looks as if the STUC wants to have its cake and eat it, by saying that although it wants the Scottish Government to come up with a future policy direction, the STUC is hedging its bets. Can you explain the STUC's thinking?

**Stephen Boyd (Scottish Trades Union Congress):** Absolutely. First, although the STUC proposed that there be no change this year, I have to say that we had a very lengthy discussion and debate on the issue. What we recommended this year was based on a very difficult trade-off between supporting public spending levels at this time of austerity, and supporting household incomes, which have been battered over the past few years. For the specific year under discussion, we thought that keeping the SRIT at 10p made sense.

We are not saying that the Scottish Government should state what it thinks the level of income tax should be three or four years hence; we think that the approach that it should take is to start a discussion on income tax. We have not, since the start of devolution, had the benefit of a mature debate in Scotland about taxation and our different approaches to it. The STUC is very clear about our approach to taxation: if we are to create the kind of economy and society that the Scottish Government tells us it wants to create—we believe that it is sincere about that; the Opposition parties in Parliament also have a view about what kind of society they want to create—we can do that and sustain such a society only with significantly higher total taxation revenues.

There was a lot of discussion during the referendum campaign about the Nordic nations. Denmark's and Sweden's total tax revenues are about 12 or 13 per cent above where we are at the moment, Norway is about 8 per cent above our figure and Finland is 9 or 10 per cent above it. Those tax revenues have been sustained over the long term. If we want to move towards that kind of society, we have to look at how we can generate more taxation revenue. The STUC thinks that the Scottish Government should start to discuss how we would go about doing that in the longer term.

There is no contradiction between our saying that we want to generate a more substantial debate about taxation policy and our position in the written submission.

**The Convener:** Okay. Obviously, the difficulty with the taxes that are devolved at present is that we do not, as you know, have total flexibility in terms of income taxes.

In the argument that Lucy Hunter Blackburn put forward last week, she outlined why low-paid people would benefit in relative terms. A person who earns £10,600 does not pay income tax. If there was a 1p increase in the SRIT, a person who earns £10,000 more than that would pay an extra £100 while someone who earns £50,000 would pay an extra £400. The person who earns £50,000 would pay a higher proportion of their income: the person on £20,000 would pay 0.5 per cent of their total income, whereas the person on £50,000 would pay 0.8 per cent of their total income.

The tax would therefore be slightly progressive, if anything, and it would allow significant resources—about £330 million per 1p increase in the SRIT—to be put into public services, which would obviously help to create and sustain jobs in the public sector and possibly even allow more flexibility on wages and so on. How do you feel about Lucy Hunter Blackburn's argument—which was, incidentally, contradicted by Ben Thomson. What is your perspective?

10:15

**Stephen Boyd:** I am not surprised that that argument was contradicted by Ben Thomson. It is a very serious and relevant argument, and one that we had in the STUC when we discussed the position that we would set before the committee. The argument was expressed forcefully by a number of our representatives. I stress that, if we have the same discussion a year hence and find that the recovery has become further embedded and real wages have continued to rise over the year, I think that we would endorse that argument, as we have suggested in our written submission. However, our point is that, at this particular moment in the economic cycle, having been through an historically unprecedented collapse in real wages over the past five years, 2016-17 is not the moment in which to increase taxes on the lower paid. We acknowledge the argument and, as I said, if we were to come back next year, we might very well support it. The issue is timing; we do not think that the time is right to raise income taxes on the lowest paid.

**The Convener:** Would it be fair to say that there is an element of frustration in the STUC that we do not have more flexibility in how income tax can be implemented, such as power over bands and thresholds?

**Stephen Boyd:** Absolutely. I wish that we were discussing the Smith commission powers now. If that were the case, our submission and recommendations for next year would look very different from the ones that we have expressed in our written submission. However, we are where we are—we are dealing with the SRIT, and that is

the basis on which we have made our proposals for next year.

**The Convener:** Dr McCartney, what is your view on whether the time is right to put up tax? You said that every 1 per cent increase in taxation will, over 20 years, reduce health inequality by 0.5 per cent. Can we wait for that, given the high levels of mortality? As you know, I have attended a number of your presentations in which you have said that, even comparing Glasgow to Liverpool, there have been significant changes. Can we afford to wait, for the reasons that Stephen Boyd explained, or is now the time to increase taxation, within the limited framework that we have with the SRIT?

**Dr McCartney:** I share Stephen Boyd's views about the bluntness of the tool that is available. Clearly, it would be much more interesting if we could describe a sharper tool that would allow us to vary the bands and be much more progressive. However, there is urgency on the issue. Since 2007, the Scottish Government has been committed to reducing health inequalities, as were previous Administrations, yet health inequalities in Scotland are stubbornly high. I deal with statistics, but we need to remember that we are talking about individual lives being curtailed, families being bereaved and human lives being wasted. It does not need to be like that, and it is not like that across the rest of Europe.

We need to be careful because, if we take money from across society with a blunt income tax tool such as the SRIT, there are risks that some groups will be disadvantaged, but we also need to discuss what that additional revenue would be used for. It could be used to mitigate loss of income to some lower-income groups. We know that the Scottish Government is working hard to mitigate some of the so-called welfare reforms that have come from Westminster. There is a strong case to do something soon and urgently to increase the Scottish rate of income tax, while using the revenue to ensure that people on lower incomes are not penalised.

**The Convener:** Do you support that argument, Ruchir?

**Ruchir Shah:** We need to start from the point that tax is about pooling resources for the common good. As I said, I agree that next year you are getting a very blunt instrument. The difference is about what you can do. The fact that Parliament will get those powers next year, even if they are transitional, will shed a spotlight on income tax in a way that has not happened previously in Scotland. You have an opportunity to use that spotlight to create a bigger debate and discussion with a much wider variety of people than might normally take an interest in tax, and to try to reconnect with the idea of pooling resources for the common



good. Then, you can start to think about the role that tax can play and how it connects with spending on public services. That is not an automatic connection. It is important that we get that conversation going with a much wider range of people than have traditionally been involved. You may not be getting a very powerful instrument in the Parliament next year, but you are certainly getting a spotlight on income tax, which you can use to generate a much wider debate.

**The Convener:** Stephen Boyd's submission states:

"The STUC notes international evidence strongly suggests that the scale of taxation is more important for reducing inequality than progressivity."

That is almost an argument for tax rises across the board. Surely in areas that you have quoted, such as Scandinavia, they are also highly progressive in relation to income tax?

**Stephen Boyd:** No, they are not, actually. Let us try to work through this, because "progressive" and "regressive" can be used in an overly simplistic fashion in regard to this topic. When we compare the structure of the taxation framework in the United Kingdom to that in Nordic nations, we find that the UK is more progressive. Higher-paid workers pay proportionately more. That is despite the top rate of income tax in Nordic nations being significantly higher and the thresholds being lower, so higher-paid people pay more. Their system as a whole is less progressive because people at the bottom tend to pay more as well. That is mainly attributable to very high consumption taxes and to consumption taxes being levelled on—

**The Convener:** My apologies—I was talking about income tax levels because we are talking about the SRIT. I was not talking about the entire package of everything from excise duty to VAT to national charges. I was talking specifically about the SRIT, simply because we are arguing about that particular tax at the moment. I will let you finish what you were saying anyway, because it is an interesting point.

**Stephen Boyd:** The point that we made in our written submission was about the taxation framework as a whole. If that is not clear in the submission, I apologise.

The point is that the progressivity of income tax or of the taxation system as a whole can become something of a shibboleth. If tackling inequality is our first priority, I would argue that the international evidence is extremely clear that it is the scale of taxation—the total tax revenues that the Government absorbs year in, year out—that makes the difference in that. That raises a lot of fundamental questions for us all in taking forward a mature debate about taxation.

We would argue strongly that, like the Nordic nations, we need a higher top rate of income tax and we need thresholds to be lower. However, we also have to accept that all of us will probably have to pay a bit more. Looking at the role of consumption taxes, which we have traditionally opposed as being a regressive measure, in a taxation framework that is fairer as a whole, we might start to have a very different discussion about what consumption taxes might look like and what they should be levelled on. That is very long-term stuff. Nobody is pretending—not least ourselves—that we can move from where we are now to a Scandinavian type of taxation framework tomorrow. It is probably not even achievable in the longer term, but that tells us pretty fundamental things about the direction of travel.

**Gerry McCartney:** Some of the other things that we know work to reduce health inequalities are regulating and legislating and using the tax system to reduce consumption of unhealthy goods, services and products and encourage the use of healthy things. We always support increases in tobacco and alcohol taxation or duties and so on, including minimum unit pricing for alcohol. It is well evidenced that all those things can shift the balance away from consumption of unhealthy things and reduce inequalities in the consumption of those things.

Ultimately, however, the fundamental causes of health inequalities are much more to do with the income, wealth and power that people enjoy in society. There is no contradiction between Stephen Boyd's position and what we are arguing.

**Ruchir Shah:** One of the things that we know about Scandinavian countries is that, historically, at the same time as having high rates of tax across all the bands, they have also had much more universal services. It is therefore much more apparent to the people who pay those taxes in lower income bands that there is a direct connection with the services that they get, so they are much more willing to pay those taxes. That kind of debate is sometimes missing in Scotland and the wider UK. Those two elements go hand in hand—that perception is just as important as the way in which the tax system is framed in Scandinavia.

**The Convener:** I think that you are right. The buy-in is important.

I have a question on one final point before we move on, because a number of colleagues want to ask questions. Stephen Boyd states in his submission:

"In this context, it is not credible for the Scottish Government to prioritise inequality while proposing only a series of tax cuts (SBBS, Air Passenger Duty, additional corporate reliefs)."

The Federation of Small Businesses said that, during the recession, one small business in six—there are more than 100,000 in total—would have gone bust without that. I visited Glasgow airport, which has more than 5,000 staff, from baggage handlers to senior engineers and retail staff, and it said that, with the abolition of air passenger duty, it would be able to significantly increase its workforce—certainly by more than 1,000. Edinburgh airport has said something similar.

On additional corporate reliefs, we can argue about the modelling, but you will know that it suggests that, in the medium term, 27,000 additional jobs would be created with a 3 per cent reduction in corporation tax. Is it not the case that the whole point of those tax cuts is to boost the economy and job creation, and therefore the tax revenue?

**Stephen Boyd:** I do not accept that at all. I argue strongly that the evidence from all countries and across time is that, when we cut taxes, the detriment to revenues is immediate and real, the economic outcomes are highly uncertain and, if they transpire, they are long term.

I will work though each of the mechanisms that you mentioned. On the small business bonus scheme, the point that we made at the time is that the average benefit is about £1,400. To be frank, if the difference between a business going to the wall and that not happening is £1,400, the business is not viable, and public policy should not attempt to save such businesses. It sounds brutal, but that is an important point.

We have had this debate with ministers, including the First Minister, for a number of years. We have called for evidence to be produced that describes to us in detail the benefits that the small business bonus has brought to the economy, but that has never been forthcoming. We have provided evidence. To be frank, it is now somewhat out of date but, for the first two or three years of the scheme, we provided our own evidence and it seemed to show that there had been no benefit whatsoever for Scotland relative to the rest of the UK.

On air passenger duty, we have heard a number of times in the past couple of years Edinburgh and Glasgow airports talking about how passenger numbers have been growing exponentially, and that is before air passenger duty has been cut. I would be surprised if there was a significant employment dividend from cutting it further.

On corporation tax, I just do not accept that the modelling is credible but, even if we accept that, the additional 27,000 jobs over 30 years would be a tiny benefit, to be frank. Again, it is the tyranny of large numbers—27,000 sounds a big number until

it is properly put in context and, when it is, the benefit is marginal in the extreme.

**The Convener:** In an economy the size of Scotland's, 27,000 jobs sounds like a lot.

**Stephen Boyd:** Yes, but it is over 30 years.

**The Convener:** I do not know whether the FSB would agree that the benefit of the small business bonus scheme is £1,400 per business, but is it wrong when it says that one in six of its businesses would have gone to the wall at the peak of the recession?

**Stephen Boyd:** That is on the basis of a non-scientific survey of a tiny sample of Scotland's small business community. We have had no credible academic evidence to show us the benefits of the small business bonus. We produced our own evidence—it is now four years old, but I am happy to send it to the committee—that asked a number of questions about the scheme. None of them has ever been answered, despite repeated calls on the Scottish Government to answer them.

**The Convener:** That would be helpful.

Dr McCartney, what is your view on the issues?

**Dr McCartney:** I have comments on air passenger duty that might be relevant. If we are trying to encourage economic growth with a view to increasing employment and incomes across society with the view that that will improve health and reduce health inequalities, it may well be useful to reduce air passenger duty. However, if the ways in which we increase economic growth result in greater air pollution and increase the risk of climate change, the negative impacts on health and health inequalities will more than outweigh any short-run economic growth benefits that might occur.

Members will be aware of the reports in the press in the past couple of weeks based on an annual report by the Department of Health on the number of deaths due to air pollution across the UK and in Scotland specifically. The number is staggering—I think that it is about 5,000 deaths per year. We need to be careful about measures that increase economic growth but that will also clearly increase air pollution.

We also need to be careful about the premise that air passenger duty cuts will increase economic growth by increasing the number of employees at airports. The net number of tourists leaving Scotland through our airports is greater than the number of people arriving—there are more on the road out than the road in. Increasing airport capacity is likely to drain economic activity, as Scottish tourists go abroad to spend their money rather than spending it here.

We need to be careful about the model of growth that we pursue. We need to be confident that the ways in which we try to increase economic growth will have a robust impact on factors that improve health and will not have inadvertent and unexpected consequences.

10:30

**The Convener:** Are folk not just less likely to go down and stay overnight in Manchester or go to Gatwick to go on their holidays rather than decide, “We won’t go to Loch Lomond; we’ll go to Florida”? I cannot imagine that many folk would decide on their holidays based on that.

I understand that less than 2 per cent of air pollution is caused by aviation; most of it is caused by cars. The overwhelming majority of pollution is caused by individual cars that people use for their daily journeys.

**Dr McCartney:** All those things make a contribution. Air pollution from planes has a particularly detrimental effect on climate change. Mortality figures are based on local nitrous oxide emissions and diesel fumes, but the longer-run impacts on climate change are much greater from air travel.

**Ruchir Shah:** You will find a diversity of views in the third sector. A set of environmental charities have made some very strong positions known on air passenger duty and on the impact on climate change, which Gerry McCartney mentioned. There is also a lot of concern among environmental charities about changes to subsidies for renewable energy in the UK tax system. There will be clear pockets of interest, particularly as we move toward the Paris climate change accords in December.

Other parts of the sector might well argue that the impact on people who travel with budget airlines might be bigger. Air passenger duty is one of those issues on which there will be different views in the third sector.

**The Convener:** Thank you. I will open up the session to colleagues round the table.

**Richard Baker (North East Scotland) (Lab):** Dr McCartney, in your written submission you referred at length to the need for preventative interventions and preventative spend. The committee has been interested in that area of public policy.

Last week, we heard from Lucy Hunter Blackburn about local authority funding being in such a situation that, in many circumstances, families that she described as “on the edge” of vulnerability cannot receive the supportive interventions that they require. Does that make an argument for increasing the SRIT above 10 per cent, as Lucy Hunter Blackburn proposes,

specifically to fund local authorities so that those services can be extended to the families who require them? If that funding is not made available, that will potentially cost the public purse and taxpayers more in the future.

**Dr McCartney:** Yes, I agree with what you describe. There is a demographic issue occurring in Scotland in common with the rest of the western world. As our populations age, the length of time that people spend in ill health and in need of health and social services increases. That is currently increasing and is projected to do so in future, which has huge financial implications for Governments, including the Scottish Government.

The challenge is to prevent as much of that morbidity—that time spent in ill health—as possible, to improve people’s lives, which is clearly the prime objective, but also because of the financial implications. Policies, practices and services that can prevent or compress that period of morbidity, as Derek Wanless put it, are vital if public spending is to be kept sustainable in the future.

We know many of the factors that will allow the prevention agenda to be realised, and they are not all revenue costs. Legislation and regulation are important means of prevention. Regulating the sale of alcohol, the use of tobacco and the marketing of food is vital to preventing diseases that are related to alcohol, tobacco, obesity and poor diet. It does not necessarily need to cost money. The Scottish Government could do many things now that would prevent much of that need for spending and much of that morbidity in the future. Many public services are highly effective at coping with increasing morbidity and could prevent much of it, from the early years experience of nurseries and education services through to all the local authority and central Government functions. Many of those are evidenced as being effective at reducing subsequent ill health.

As I have indicated in my paper, spending money on such things would be a highly effective way to reduce the future revenue burden on the Scottish Government but, importantly, it would also improve people’s lives.

**Richard Baker:** Ruchir Shah, although the SCVO has not recommended a tax increase per se, am I right to presume that among your membership there is an acute awareness of the strictures on public funding and the ability to invest in services, which Dr McCartney has described as being important preventative measures that reduce future costs to the taxpayer and improve the opportunity for equality in the future?

**Ruchir Shah:** For that very reason, there did not seem to be an appetite to reduce taxes, particularly when we are going through austerity

measures and a period of compression in public services.

We do not need to increase taxes to invest in prevention. Prevention is something that can be done with budgets now. What gets in the way of the push towards prevention is not so much lack of money, but lack of political will—there is a fear of how people will perceive any shift in major budgets away from acute services—budget protectionism, which is the way in which we have organised some of our big blocks of services, and vested interests in the way in which the system is currently run. That is why we have not been able to shift towards prevention.

I do not think that we should look towards the new tax powers as a panacea and as the way to bring extra money into prevention. We need to look at our budgets independently of the tax system. However, as far as we can tell, with all the caveats that I mentioned earlier about how much we have been able to generate debate on the subject, there is no appetite in our sector for reducing taxes.

**Richard Baker:** Those tough decisions on spending present an on-going problem that is not easily resolved, as you have highlighted.

My final question goes back to the proposal that was made by Ben Thomson, which was interesting if nothing else, to have a cut in the SRIT but a big increase in council taxation. That proposal would keep a balance in the overall funding that is received through taxation, but more of it would be raised at local level. What is the panel's view on that proposal, having seen the detail in last week's evidence?

Ruchir Shah, in your submission you talked about the importance of explaining to people the value of taxation, why they pay taxes and what they get back from them. If there were to be a switch so that a greater amount of taxation took place at a local level, would it make that argument easier or would it be just as difficult to pursue?

**Ruchir Shah:** We have given evidence to the joint inquiry of the Convention of Scottish Local Authorities and the Scottish Government into local taxation. One of the points is that the current local tax system is not really designed to allow a separation of the impact on people who are more in poverty from the impact on others—the system is even more blunt than the powers that will be coming to the Parliament next year.

On the back of the Smith commission, we have argued—with a lot of support, driven by our membership—for a portfolio of taxes to be devolved to the Parliament, rather than lots of things on a very specific tax base, which is what the current Scotland Bill offers. With a portfolio of taxes, we could start to rebalance and consider

how we tax people differently. However, that goes back to Stephen Boyd's point that we must think about how progressive a tax is, where the burden falls and how we ensure that the approach to taxes works better.

**Stephen Boyd:** The countries that sustain significantly higher total tax revenues over time tend to tax much more on a local basis, so there is something in what Ben Thomson says. If we shift a far greater responsibility for taxation to the local level, it would do more to help people understand how taxes are spent and should help to improve the quality of local democracy, too. We are all currently engaging with the commission on local taxation. It should help to sustain higher tax revenues in the longer term.

The danger lies in trying to do that over one year in a very blunt fashion, which sounds positively dangerous. It is something that I had not really thought through until this morning. To whack a great sum off income tax collected in Scotland just to shift it on to council tax raises all manner of questions, not least about how the tax is collected and how individuals and families cope with the transition.

People pay income tax through pay as you earn, which they tend to find easier to manage than having to arrange to pay council tax monthly proactively. There are all manner of issues there that would require some pretty careful forethought.

**Dr McCartney:** The suggestion that we should increase council tax as a means to address some of the issues that are prevalent in Scotland at the moment is not one that I would support. We have modelled the impact that changes in council tax rates would have on health inequalities and found that they would exacerbate health inequalities, because the council tax is such a regressive tax. There would have to be a massive amount of recycling of that additional resource to redistribute the additional income that might be raised in order to mitigate the effect of increasing that regressive tax.

The points that Stephen Boyd and Ruchir Shah make about increasing the total tax take and improving local democracy are true, but I want to point out another consequence of increasing local tax in that way. Some of the areas of Scotland with the highest local government taxation rates already have the highest mortality rates and rates of health problems—namely, Glasgow and the surrounding deprived areas in west central Scotland. The payment for those services would be put on people in the most deprived and lowest-income groups. That is a problem that Glasgow City Council has suffered for some time. Its local tax base is much diminished compared with the need that it serves in the city and the needs that it

meets for people coming into the city to use its museums and suchlike.

The local taxation versus local democracy issue is tricky to resolve. We would certainly not support an increase in council taxation as it currently is, because of the regressive nature of council tax and the knock-on effects.

**Richard Baker:** Lucy Hunter Blackburn gave us a different model—it was probably similar to a regressive tax, as you put it. It would be interesting to see your modelling, Dr McCartney, so that we can compare the two.

**Dr McCartney:** It is all cited in our written submission. I can happily share more of that.

**Richard Baker:** Thank you.

**Jean Urquhart (Highlands and Islands) (Ind):** It has been suggested that people might leave Scotland if the tax rate here were higher. Would it be an issue in each of your professions and in the organisations that you represent if Scotland were to have a higher rate of income tax than England? We are constantly comparing ourselves with England in so many other fields. Do you seriously feel that people would consider that when they look at their payslips?

**Dr McCartney:** We based our modelling on the University of Stirling model of variations in the various tax powers that are available to the Scottish Parliament. One of the assumptions that was made in that model was about the degree to which people might move in response to changes in their taxation. That involves assumptions, although they are based on the international literature. The number of people moving at the magnitude of the changes to the taxation system that are being proposed and discussed today was minimal.

I would be in the higher tax band, and my job would still exist. There are plenty of people looking for jobs. Many of the posts that are in the higher-paid sector are not so mobile that people could take those jobs elsewhere. Clearly, that would be different in some other sectors, but those sectors are much smaller in Scotland than they are in the rest of the UK.

**Stephen Boyd:** It is a question that we cannot really answer with any great certainty at this time. We have to understand the starting point, which is quite a low rate of labour mobility in the UK compared with other jurisdictions such as America and Canada. That came out during the independence referendum campaign last year, particularly in the work undertaken by the Bank of England to support Mark Carney's famous speech in February 2014, when he attacked the myth of great labour mobility between Scotland and the rest of the UK. We would have to point out,

however, that there is currently far greater mobility from Scotland to the rest of the UK than from the rest of the UK to Scotland.

10:45

In the longer term, once Scotland has control over tax rates and thresholds, we would support having a higher top rate of tax in Scotland. It is important to understand that that would be a policy experiment; we would not be able to forecast or model the consequences of that change with any great certainty. The integrated market of the UK is unique. We can look at what happens in the United States, Canada and other jurisdictions, but we will know what changing that rate will do to labour mobility within the UK only once it actually happens.

Changing the top rate of tax will not just affect revenues; it will change behaviours as well. If we want to create an economic model in Scotland that is distinct from the rest of the UK, I would argue that a higher top rate of tax is a crucial component in order to change the behaviours of the executive class.

The benefits and consequences may be things that we have not really thought through yet. It will be important to take the odd policy experiment and see how things work out, on the understanding that if the impact is more detrimental than forecast that might have to be addressed quickly in some way.

**Ruchir Shah:** The third sector has two constituencies that we would highlight. One is the beneficiaries. Many of the people that our sector works with as beneficiaries would not have a choice about whether to move or to stay where they were; they would have to stay.

The other constituency, which we have been highlighting this year, is the donor base. Over the last few months, charities have become very aware of the trust between them and their donors—those who give money to charitable causes. If the systems were to diverge quite substantially and income tax in Scotland were to be very different from the rest of the UK, it might be in the interests of some of the donors to charities to consider moving—particularly if the system became very complicated for them in the part of the UK where they were.

Whether those donors would move is an interesting question. I can see a case for some of them thinking that they should move if, in another part of the UK, there is a more coherent system, they can ensure that all their money goes to good causes or they can deal better with the complexity. It is again a question rather than a certainty.

**Jean Urquhart:** Continuing on that theme, in your written submissions to the committee all of you have talked about education on tax and helping people to understand the tax system better. Thinking back, I was in the Scottish National Party at the time when we had the penny for Scotland campaign, which was not seen as a great idea although clearly there would have been more money to spend on public services.

How do panel members think that helping people understand the tax system better can happen? Do you think that money should be ring fenced? Governments do not like that, but is it something that you think would have public appeal? Would setting out what the penny—if it was a penny; 10 per cent of the 10p—income tax increase would mean in real terms and how it might be divvied up make the increase more appealing?

**Dr McCartney:** I can offer a very limited comment on that. The Scottish social attitudes survey asks questions about people's appetite for further redistribution. Although the proportion of the population that supports redistribution has come down over time, it is still substantially above 50 per cent. The survey does not specify particular policies or increases, but there does seem to be majority support for greater redistribution.

It is, I think, widely accepted that the narrative adopted by a whole variety of people in the public arena about how we describe particular groups and their needs has often been quite divisive—the whole strivers versus shirkers debate and the description of welfare recipients and people who require different aspects of the social security system. That has reduced social solidarity and the universal approach to both provision of and contribution to those services. We all have a responsibility to enhance that social solidarity through our description of how we fund and provide public services, lest we exacerbate inequalities and undermine the basis for addressing them in the future.

**Jean Urquhart:** During and since the referendum, a lot of comparisons have been made with Nordic countries, which generally have higher taxes. Has that given people a much greater awareness of what happens if people pay more tax? There has been discussion about that, even if it has just involved people arguing that the Government says that we can have Nordic levels of public services without increasing tax. Taking that out of the equation, I think that people have looked at the matter in a different way. Do you agree?

**Ruchir Shah:** Part of the trouble with looking at how tax that is paid by a taxpayer is spent and where it goes is that it starts to look quite strange to people who do not pay income tax because

they are below the threshold or they depend on support. It is probably better to look at the tax that Government collects as a whole, from all sources—whether that is from corporations, through consumption taxes, through duties or whatever—and how it is spent. We can then look for people to buy into that, rather than personalising it to the extent of considering where the penny that somebody puts in goes to. If we do that, we start to speak only to a particular section of society.

**Stephen Boyd:** I am not particularly confident that the referendum debate left us in a significantly better place to have this discussion than we were in before. A number of narratives arose during the debate that were not particularly helpful, such as that we could be more like the Nordics and all we needed was more and better jobs rather than higher tax rates. Gerry McCartney and I were both involved with the Jimmy Reid Foundation, and he will remember that before we published our paper on taxation we had lengthy email exchanges in which I argued that that was a risible approach to funding public services.

It is also important that we do not get too dewy eyed about what is happening in the Nordic arena. Those countries' higher tax systems have been under significant attack for a number of years. In Sweden in particular, we have seen the total tax revenues fall reasonably substantially over the past few years.

In general, the scale and quality of political debate in Scotland has improved over the past few years, although I would not make too much of that. Maybe we are in a better place to start generating a more mature discussion about taxation, but I do not think that the referendum debate in and of itself left us in a hugely better place to discuss taxation.

**Jean Urquhart:** Thank you.

**The Convener:** Along with Gerry McCartney, I addressed a public meeting in Elderslie in 2013, and I do not remember taxation playing a big role in that debate.

I will say one thing for clarification given what Jean Urquhart said. The SNP specifically pointed out how that money would be spent in a ring-fenced way on housing, education and health, but I do not think that it necessarily made that much of a difference. Tony Blair and his Government raised taxes through fiscal drag, excise duties, VAT and national insurance. He had said that they would not increase income tax, but other taxes were allowed to rise. Sometimes, perhaps because the public do not feel them in the same way as income tax, which is almost a totem, politicians use those other methods. Of course, we

do not have some of those methods available to us here in Scotland.

**John Mason (Glasgow Shettleston) (SNP):** Last week, I was impressed by Lucy Hunter Blackburn. I do not know whether you read her submission or heard what she said, but she gave us some figures on what tax would be paid at different levels of salary and she argued that the SRIT is progressive. There has been a wee bit of uncertainty and debate about that. Do you guys think that the SRIT is progressive?

**Stephen Boyd:** I do not think that the SRIT is progressive in and of itself, but that is not to say that the funds that could be raised through increasing it could not be used in progressive ways. I mentioned earlier that we can use “progressive” and “regressive” in narrow and simplistic ways.

I read Lucy Hunter Blackburn’s submission, and I thought that it was a very good and serious argument. It certainly informed discussion and debate at the STUC. I have to stress that our position was arrived at on balance and on the basis of making a very difficult trade-off. If the Scottish Government chooses to run with Lucy’s suggestion, the STUC can live with that. We are making a recommendation for the specific year under discussion, but we understand that there are other approaches and it is certainly not a die-in-the-ditch position for us.

Lucy Hunter Blackburn makes a reasonable case, but I cannot agree with her on the fundamental point of whether the SRIT is in and of itself progressive. It is clearly a regressive instrument.

**John Mason:** Would any of the other witnesses like to comment on that?

**Dr McCartney:** Only tangentially. The reason why the income tax increase has a positive impact on reducing health inequalities when it is modelled is that there is a non-linear relationship between income and health. Incomes have to increase by quite a lot at the upper end of the scale to make a difference to health, but by not very much at the lower end of the scale. Therefore, small changes that improve incomes at the lower end will have a bigger impact. That is why the tax increase comes out as being progressive with regard to health inequalities.

The argument about whether the SRIT itself is regressive depends a lot on whether the tax is measured in relative or absolute terms. Stephen Boyd is right that normally it is measured in relative terms, which is why it is normally judged to be regressive. Clearly any increase would take in a greater amount of tax, so it could be argued that it is progressive in absolute terms.

The bigger prize is to have the power to make greater adjustment in the bandings and other aspects of other taxes as well. It is a question of what you do with the money as well as how you collect it.

**Ruchir Shah:** The SRIT has progression built into it, which is what Lucy Hunter Blackburn highlighted last week. The difference is that the progression is given and not something that you can change to make more progressive or to rebalance. The SRIT is a single blunt instrument that you have been given, and you cannot employ policy decisions made by the Scottish Parliament to change how it is balanced. Those aspects of it take away the overall sense of progression.

Of course it has an element of progression built in, and Lucy Hunter Blackburn could easily provide the figures to show that. It is just a question of what you could do, within the Scottish Parliament, to change it.

**John Mason:** The figures that Lucy Hunter Blackburn gave us were that if someone’s salary went from £25,000 to £125,000—that is, it increased five times—the extra tax being paid would go from £216 to £1,875, which is about eight and a half times. Purely on those figures, Stephen, would you accept that it is progressive?

**Stephen Boyd:** I am not sure that I follow those figures, but if the data has been applied in a flat fashion to both the basic additional and the higher rates, I do not see how the instrument in and of itself can be described as progressive. I understand that the revenue is collected and can be used in progressive ways and have progressive outcomes such as Gerry McCartney described.

**John Mason:** I think that Lucy Hunter Blackburn’s argument is that, because of the £10,000 allowances at the bottom of the income scale, somebody on £15,000 is not paying very much tax at all, whereas somebody on the 45 per cent rate will be paying an extra 45p for every pound they get.

**Stephen Boyd:** Okay. I would have to look at what Lucy has written.

**John Mason:** That is fair enough.

I take the point that one or two witnesses have made that their comments are just about 2016-17, and I accept that that is all we are asking about. However, I wonder about timescales. We were given the power in 2012, and it is taking four years to work its way through. Her Majesty’s Revenue and Customs has managed to change its systems, employers have new software and so on.

I do not know whether there is a timescale for it, but my assumption is that any new powers in the Scotland Bill will also take four years to work their way through, which would take us to 2020. Should

we wait until 2020 before we play around with taxes at all, or should we think about it before then?

**Stephen Boyd:** I think that we have been very clear in our submission: we should certainly be thinking about it before then.

My understanding is that we will receive the Smith commission powers before 2020, but whether it is in 2018, 2019 or 2020 we should certainly, every year, look at the case on its merits and have a close think about whether we need to increase the SRIT or, indeed, whether there is a case for decreasing it—an opinion that I would not share. Nevertheless, we should have the discussion year on year.

11:00

**John Mason:** We know what Dr McCartney's position is. Does the SCVO have a different view for the next four years, or are you purely talking about this year?

**Ruchir Shah:** My understanding is that implementation took four years because it was a matter of not only getting the systems and infrastructure in place but getting the modelling done to ensure that, as we moved into next year, we had some confidence that the correct calculations had been done. Clearly we will not need to do the same amount of modelling for the next phase, as much of the work and many of the calculations have already been done. I am no expert on this, so I do not really know, but it appears that we will not necessarily need the same lead-in time.

I can tell you that discussions on this matter have been happening in parallel with putting the infrastructure in place and doing the modelling. For example, the Scottish Government set up a devolved tax collective with representation from a range of organisations, including from the third sector. Third sector organisations have found it helpful and useful to engage in the discussions and talk about principles with regard to where we might start with a tax system in Scotland, including—and I give the Government credit for being open to this suggestion—starting with a blank sheet of paper. We have not had the space and time to engage a much broader range of people in those discussions, even with the referendum, but that discussion has already started.

**John Mason:** I was interested in a comment that you made earlier. Obviously, your organisations are trying to help the most vulnerable people. However, I presume that those people are not paying much tax, if any, which means that this measure will not actually have any effect on them.

**Ruchir Shah:** They have just as much of an interest in how their society is run and paid for as anyone else. After all, everyone pays tax through, say, VAT and local taxes.

One of the key points that we would like to get across is that people who do not pay income tax do not necessarily have less of a stake in society or in the deployment of resources in their country. It is really important that we do not make that separation. People might not be paying a particular set of taxes, because of their circumstances, but they have just as much of a stake in society as any other person, and they will certainly be paying tax in other forms; indeed, they might see the extortionate rents that they have to pay as a tax on their limited resources. We need to look at this issue in a broader context.

**John Mason:** I very much agree with the argument made in some submissions that we should look at the whole package, but at the moment we are looking only at the SRIT.

If the SRIT were to be increased by a penny and the money that it raised were targeted at, say, the more needy, would the people who are represented by your organisations not receive a net benefit, in that they would not pay more tax and would benefit from the services?

**Ruchir Shah:** We said in our submission that, as long as the money is spent on tackling poverty and inequalities, raising taxes by 1p in the pound will definitely support the people with whom our sector works.

**John Mason:** I am still struggling to understand the STUC's position. For example, you say in your submission that

"Taxes are not high by historical standards",

which I take to mean that we have a bit of space to raise them. On the other hand, you have said that this is not the time to raise tax. Given that public sector finances are being absolutely squeezed, surely this is the time to raise taxes and get more money.

**Stephen Boyd:** What I am trying to describe is, as I have pointed out a number of times, a very difficult trade-off at this moment in time. If in a year's time we have this conversation again and the economy has continued to grow and the labour market has continued to stabilise, we will absolutely support the point that you have just made about using additional tax revenues to support the most vulnerable people in society.

Our judgment this year is that, on balance, as we come off the back of five years of historically unprecedented real-terms falls in wages, and given that the recovery is still not particularly robust and that there are a number of significant uncertainties that might play out between now and



April, when the tax is implemented, now is not the time to increase the SRIT. However, I stress that if the Scottish Government increases the SRIT and uses it to support the most vulnerable people in society—as you seem to imply that it should—you will not find us screaming about it in the papers.

Sometimes there are clear dividing lines in taxation policy, as with corporation tax, for example, on which—as you will know—we have vigorously opposed the Scottish Government's approach over a number of years.

The debate around whether or not we should increase the SRIT by 1p or 2p next year is altogether different, and the dividing lines are much more blurred. We would certainly be much more accommodating of a change in the Scottish Government's position on the SRIT than we were in respect of corporation tax.

**John Mason:** I realise that your position is the net effect of the attitudes of all your members. Nonetheless, would it make any difference if we said that the 1p or 2p would be hypothecated or ring fenced specifically for local general practitioner practices in poorer areas or for mitigating welfare cuts, for example?

**Stephen Boyd:** The STUC has not discussed that in its committee structure, but among the people whom we represent it probably would make a difference. We all know the more technocratic arguments for why tax hypothecation is not necessarily a good idea, but, if we were to try to sell such an increase at this particular juncture in economic history, that approach would probably not be unhelpful.

**Ruchir Shah:** I would be very concerned about that approach. In a sense, the Government would be seen as saying, "Look—we have managed to cover the mitigation of welfare cuts because we are taking the 1p and using it to address that." What about the rest of the budget?

I would be concerned about trying to ring fence taxation and saying, "That's the bit that will sort out welfare," which implies that we do not need to worry too much about the rest of the budget and how we might use it to tackle poverty and inequalities.

**Stephen Boyd:** I did not take John Mason's question as implying that at all. If I had, I would have agreed with Ruchir Shah.

**John Mason:** That is great—I appreciate all your comments.

Mr Shah, in response to Richard Baker's questions on prevention you made a distinction between how we spend money at present and the possibility of spending less on acute services and more on preventative aspects. However, if we had a bit of extra money, that would surely take the

pressure away. The idea of disinvestment and taking money away from acute services is very difficult in an area such as health. Would you be happier if we could raise a bit of money and put that into preventative spending?

**Ruchir Shah:** If we raised a bit more money through income tax, we would be back here in a year's time discussing the very same thing and saying, "If we can raise just a bit more, we might be able to put it into prevention."

The acute services will swallow up whatever resources are put in through the tax base. It would be very difficult to hive off money—for the same reason that I gave when I made my previous point—and say, "This bit of extra money is for prevention." That would make prevention sound like a luxury, but it is not a luxury—it is absolutely essential.

The whole budget and resource, not just any extra money that is raised, must be looked at, so I would not necessarily agree with the point that you make.

**John Mason:** Dr McCartney, you have given a reason and outlined what we should do with the revenue if we were to raise more money. For example, you said that we should

"increase the incomes of the lowest income groups"

and

"fund high quality universal services ... with proportionate universalism".

If we said that to the public, the justification would seem quite wide. Do you think that we can sell the argument that we should raise income tax by 2p to pay for that, or do we need to be more specific and say, "Let's put this chunk into GP services such as the deep-end practices"?

**Dr McCartney:** How it is sold to the public is not my area of expertise, so I do not want to be drawn too much on that. I will make two points in relation to what colleagues have said.

First, with regard to welfare cuts and social security benefits, we know what is coming down the track in the next five years, and more cuts may be announced by the United Kingdom Government. Many of our Scottish citizens who rely on social security payments or who are on the lowest incomes, such as lone parents and young men on JSA who are sanctioned, will be plunged into absolute poverty over the next five years as the policy winds its way through the system.

On the question whether we do something now or wait, you raised the prospect that it might be even later than 2020 before we have more powers in this area. If we continue to wait and do not use the powers that are available to us, we run the risk that things will be an awful lot worse by the time

we get round to discussing what we might do with more powers.

I support Ruchir Shah's point about prevention. Prevention does not need to involve a cost to the Scottish Government. Most of the effective prevention measures relate to regulation and legislation, and they do not actually cost a lot of money to implement. The cost is largely around implementation rather than there being a need for some revenue stream to employ staff to do X, Y and Z. Many of the effective means of prevention are available to the Parliament at present, but those options are not being taken up.

**John Mason:** Family nurse partnerships are an example of preventative spend, but they require money to be put in.

**Dr McCartney:** They would require money, but there are other aspects such as the regulation of food and of alcohol sales. You may not know that in the USA and Canada, many off-trade premises are owned and run by state jurisdictions. That reduces the marketing and availability of alcohol, and the mortality associated with it.

A high-quality systematic review that was carried out by Hahn et al clearly showed that, as states nationalised and then privatised their off-trade licensing, it made a huge difference in alcohol deaths. A change to alcohol regulation does not cost an awful lot of money—it is revenue neutral. Such measures are available now.

**Gavin Brown (Lothian) (Con):** I will start with the NHS Health Scotland submission, which refers to the impact of a 1p increase in tax. To be clear, did you measure the impact of only a 1p increase in tax?

**Dr McCartney:** Yes. That was the only modelling that was available to us at the time.

**Gavin Brown:** Are you looking to do further modelling next year?

**Dr McCartney:** Yes.

**Gavin Brown:** You do not have any other figures. From what you know, if the rate was increased by 2p instead of 1p, would you expect the impact to double or increase, or is it impossible to say without modelling the impact?

**Dr McCartney:** It would likely result in further reductions to health inequalities, although I could not quantify them exactly.

**Gavin Brown:** It is impossible to say unless you have looked at the modelling.

**Dr McCartney:** Yes. We will look at doing that, and at modelling some aspects of the other powers that will be coming to the Scottish Parliament in due course.

**Gavin Brown:** Okay—fair enough.

In the STUC submission, Mr Boyd, you have answered some questions with a comprehensive statement on tax policy that you would like Government to implement, and you have said that it is more about an approach than exact figures.

If the Government was to follow the advice in your submission, what sort of timeframe would be reasonable to allow it to proceed? Should it be the duration of a session of Parliament, or 10 years, or three years? Do you have a view on the timeframe?

**Stephen Boyd:** I was not necessarily thinking in terms of a timeframe. What we outlined was more of an approach to the tax powers that we know will be forthcoming. The Scottish Government has set out clearly that tackling inequality is its overriding concern in this session of Parliament, and we absolutely concur with it on that.

We raise the following questions for the Government. Knowing that you will receive significant new tax powers, how will you begin to wield those and what will be your approach to taxation, given that inequality is your overriding concern? What kind of things will you look at, and how will you begin to plan your taxation framework in the longer term?

I have not really thought about timeframes, but sometime in the next couple of sessions of Parliament would be appropriate.

**Gavin Brown:** That is helpful. My last question relates to the SCVO submission. Mr Shah, your submission lays the groundwork for a tax increase and explains how the additional money would be spent, but it does not suggest a tax increase. I am keen to explore why it does not.

Did you not get an opportunity to speak to enough of your members to form a view? Did you speak to a lot of your members and find that views were mixed, with some members wanting an increase while others did not? Did your members say that they did not want an increase? I am keen to explore why you did not ultimately reach a view.

**Ruchir Shah:** It is interesting that you say that our submission lays the groundwork for a tax increase. I can see why you might think that. We have said, from the conversations that we had formally with our policy committee and the third sector forum and in other arenas, that there was not really an appetite for reducing taxes during a time of austerity. That suggests that the only way is up, so I can see why you might take the view that you have.

However, a strong collegiate view was not expressed on increasing taxes. The concern would be that, although the tax rate could be increased, if the increase was made simply to

offset a reduction in business rates or some other tax in an area in which the Scottish Parliament has competence, that would not work as it should.

We were able to collect a view on how money from any tax increases should be spent. We would apply the same principle to the majority of the rest of the budget that is available to the Scottish Parliament and the Scottish Government. I would not try to read into our submission that we are trying to prepare the ground for tax increases, because we have not really expressed a view on that.

11:15

**Gavin Brown:** Fair enough.

**Jackie Baillie (Dumbarton) (Lab):** I will be very brief because colleagues have already covered a lot of the issues, but I will touch on a point made by Stephen Boyd. What you are saying in the STUC submission is that progressive income tax does not get you there to tackling inequality but that we need a much wider discussion about taxes in general that will reduce inequality. Given that we would expect any Government to set out its approach, what pointers do we have so far as to the Scottish Government's approach to taxation that would lead us to conclusions about the future? I wonder whether you would make some observations on that.

**Stephen Boyd:** Yes. The first thing that I would say about progressive income tax is that it would be a central component of the kind of taxation framework that we are looking at, so we are not saying that that is not an issue. We enjoy a very comprehensive and constructive on-going dialogue with Scottish Government ministers and officials almost on a daily basis about how we develop the Scottish economy in the interests of all our citizens. We agree about an awful lot of things, but we have very often disagreed on tax. As you know, we had a very public spat about corporation tax.

We would be concerned about a number of signs that we have had from Scottish Government ministers in the area of taxation over the years, and corporation tax would be one, albeit that the current economic strategy has reined back significantly on that position. There are also the various mechanisms that we discussed earlier in this evidence session, such as the small business bonus scheme and air passenger duty. There is an on-going stream of suggestions about ways in which taxation could be cut on the basis of assumed incentive effects, but we do not believe that they will materialise, and that is why we do not support the suggestions.

I think that you will have to acknowledge that the referendum campaign was a different time and

that it was a campaign, but a number of things were said during it about taxation rates in Scotland not rising under independence that I think were unhelpful to having a longer-term, mature debate about Scotland's taxation needs. I am not entirely sure whether ministers will be prepared two or three years hence to have a very different kind of debate, but I think that the constant refrain that we could achieve Scandinavian levels of equality on the basis of total tax revenues in Scotland not increasing was unhelpful to the kind of debate that we would want to generate.

**Jackie Baillie:** Indeed, but it was actually about tax revenues being cut. When I look at the examples that you give and at what we know, I see that it was about reducing the tax base by reducing taxes on businesses in particular. Would that not be a fair comment?

**Stephen Boyd:** I think that I have already made that point in the course of my evidence.

**Jackie Baillie:** Fine. Thank you. The question now seems to be whether to increase now or to wait, and I think that the STUC's position is to judge year by year. Ruchir Shah makes the very good point that the yield that we would get from 1p on the Scottish rate of income tax is actually quite small. What effects do you think that would have in quantum terms? Is there not a better argument to be had about shifting the spend within the overall budget, which is substantially higher? I put those questions to all the witnesses.

**Dr McCartney:** I agree that the 1p increase would be a small change, but it is one of the few changes that are available, if you like. We have discussed how we would like to have a different conversation when we have a wide range of options on the table—I hope that we will do that in the future. However, I think that small changes are important because they can still affect people's lives both in terms of their health outcomes and when they will die, and in terms of the money in their pockets and their quality of life. Small changes matter because lots of small changes add up to big changes, but it would be nice to have a wider conversation.

We would encourage a shift towards preventative spending. We could have a further debate about what that means and what is not preventative around the system. There are already mechanisms in the health sector to try to minimise ineffective spending. You will be aware of the Scottish intercollegiate guidelines network, for example, which tries to reduce spending on ineffective medicines and new health technologies, which are often marketed by pharmaceutical agencies in an attempt to get a revenue stream from the national health service, but which are not always effective. We must

always guard against the demand for ineffective treatments and interventions.

NHS Health Scotland has a strong approach to building in robust evaluation at the start of any innovative policy. Too often, we blunder into a policy announcement on an intervention that sounds good, when the truth is that we do not know whether it will be effective. The policy is implemented in a way that involves no randomisation or robust control group, and by the end of the intervention we are none the wiser about whether it was effective.

We need to stop doing that. I encourage all policy makers and politicians to be more honest about saying, "Sometimes we don't know what works. We are willing to experiment here, and we'll be able to tell you in five years whether it worked, because we will implement the policy in a way that enables us to do that." When people nail their colours to the mast and say, "This is our policy and it will be effective," there are a lot of disincentives to evaluate the policy robustly and find out whether it worked.

Where we are trying to move towards prevention, let us build in evaluation from the start, learn what works, disinvest in what does not work, and then use the money to try other things.

**Ruchir Shah:** A theme in this meeting has been whether we could hypothecate an increase in the SRIT towards specific ambitions such as prevention, tackling inequality or welfare, but I agree with Ms Baillie that we have to look at the whole budget. We have to look at our strategy for tackling inequalities, shifting to prevention, tackling poverty and so on in the context of the whole budget, and then we must consider how raising taxes through the SRIT might contribute to the wider objective. It is important that we do not just hive off a 1p increase as a resource with which to do something completely separately; what we do must be coherent and consistent with the rest of the budget.

**Stephen Boyd:** The yield would be small, but it would not be insignificant. Similarly, the macroeconomic impact of a tax rise in Scotland is likely to be small but not insignificant. We do not yet know what the environment will be in April next year, when the rise would be introduced. I have run through a number of reasons why we are concerned about how the recovery might look at that point.

We sometimes forget that austerity is shorthand for fiscal consolidation. Fiscal consolidation has two components: spending cuts and tax rises. A tax rise across the board next year is a form of austerity, and it would be problematic to introduce additional austerity after the chancellor's announcement of potentially swingeing additional

austerity on 25 November, in an economy and a labour market that we still think are significantly weaker than the headline data tends to suggest. If there is an increase and the money is spent well, we look forward to listening to the case for the increase being made, but the macroeconomic consequences should not be overlooked this year.

**The Convener:** I will bring in the late Mark McDonald.

**Mark McDonald (Aberdeen Donside) (SNP):** Yes. I apologise for my late arrival, convener. I meant no disrespect to you or to the witnesses.

Forgive me: my question has perhaps been answered in the 15 minutes before I got here. If so, this part of the meeting will be short. The witnesses have all talked about the inflexibility of the SRIT and, although it is argued that changes could be made, I think that the STUC's view is that that would be difficult to do, because the changes would apply across the board. Do you agree that that inflexibility creates a difficulty, in that we run the risk of having a stilted debate in the lead-up to the arrival of what we anticipate as being more substantial powers, as a result of Smith? Is it difficult to propose changes—and not even radical ones—because the view out there is that the Scottish rate of income tax will not really alter much?

**Stephen Boyd:** That is a concern, and we tried to cover it in our written evidence. Although we propose no change this year, we hope that a robust debate will happen year on year about what should happen to the SRIT. As long as it is the only mechanism that we have, we hope that there is a thorough debate every year about how it should be wielded. There is a danger that we just leave it sitting until the Smith commission powers are forthcoming. It is incumbent on all of us and the organisations that we represent to ensure that that does not happen.

**Mark McDonald:** Do the other witnesses have anything to add?

**Dr McCartney:** A frustration of organisations such as mine, which is doing what it can to reduce health inequalities, is that action frequently seems to be postponed. We know that there are difficulties with the powers that we have, but there are things that we could do to redistribute in a better way at the moment, through the SRIT and what might be done with the revenues from it, and through local government taxation. There is an urgent problem in Scotland. Health inequalities are wider than those in the rest of western and central Europe, and that is not a good place to be, given the human consequences.

It is worth saying that the human consequences have a knock-on effect on the economy, through lost working days and so on. The loss to the

economy of that additional morbidity is substantial. Not acting or using the powers that we have has a consequence. Clearly, the promise of a more nuanced set of policy options tends to put things into the never-never.

**Ruchir Shah:** As I mentioned, next year offers us the opportunity to put a spotlight on tax. The SRIT is a significant new tax, symbolically at least, and it gives us the opportunity to encourage discussion among a much wider range of people than might normally take an interest in tax in Scotland. That is the opportunity next year. Clearly, whether there is no change or minor change—I cannot imagine that there will be any significant, radical or major change and I imagine that, if there is a change, it will be something like 1p—there is plenty of opportunity to lay the groundwork for a discussion and debate with a much wider range of people because, for the first time, we will be thinking about income taxes in Scotland.

**Mark McDonald:** We have had submissions that have suggested reducing the SRIT. Ben Thomson, who was before us last week, and the Scottish Retail Consortium have suggested that a reduction would bring a wider benefit through, for example, a boost to VAT through consumer spending. We can argue about the whys and wherefores of that, but one of the difficulties that are created by the lack of completeness and not having access to all the taxation elements is that, if there was a corresponding benefit from reducing the SRIT, it would not necessarily be felt in the budget that was available to the Scottish Government. That is one of the difficult challenges that the Scottish Government will have to weigh up when it decides what to do with the SRIT.

I am seeing general nods of the head. Does anyone want to expand beyond that?

**Dr McCartney:** Not really. What you say is entirely true. Having aspects of devolution and no joined-up picture creates a difficulty. That will cause uncertainty about where revenues might appear and whether they will appear through VAT or growth in some other sector. I can understand that uncertainty and the nervousness around it. If we had a comprehensive set of arrangements in front of us to discuss or if we could start from scratch, as Ruchir Shah talked about, we might have a more informed discussion on what the best options would be. However, we are necessarily constrained.

**Ruchir Shah:** When we were thinking about our response to the Smith commission, some of our members debated openly the possibility that it would have been better if a portfolio of taxes right across the ranges of tax options was up for devolution rather than have a very full income tax proposition. They made that point strongly. Even if

having a portfolio of taxes meant a much more partial devolution of income tax than the proposals in the Scotland Bill that are currently being debated for much fuller income tax powers, it would be possible to balance with other taxes across a portfolio, so that could be an even better option for policy design in Scotland.

11:30

**Stephen Boyd:** I will just repeat the point that I made earlier that, when taxes are cut, we can be sure of the detriment in terms of lost revenues, whereas any potential economic benefits are highly uncertain and may not materialise at all. I refer the committee to a very interesting recent example. I will not pretend that Scotland is a perfect analogue for Kansas but, in 2012, Governor Sam Brownback slashed income taxes there on the basis that the incentive effects would be dramatic, economic activity would flow rapidly to Kansas and the economy would soar. Of course, the opposite has happened. The economy has grown no quicker than the economy elsewhere—in fact, there is a lot of evidence that it has been significantly slower—and the state finances are in an utter mess. The state Supreme Court recently ruled that the quality of education no longer fulfils the Governor's responsibility to provide an adequate education. The revenues fell off dramatically and quickly—the impact on the quality of public services was felt almost immediately—and the state is still waiting for the supposed magical incentive effects to materialise.

**Mark McDonald:** I would hope that I can say that we are a long way from Kansas.

**The Convener:** Yes, Dorothy.

**Mark McDonald:** I have a question about behavioural impacts, which kind of ties into the completeness element. Much has been said about whether individuals would relocate as a consequence of any changes, but is the more material risk not to do with issues such as deferred income or moves to dividend income? For example, with dividend income, although there is still tax to be paid, it will not necessarily be paid in Scotland. Is that the more material risk that has to be weighed up in considering any increase under the SRIT, particularly in relation to higher rate payers?

**Stephen Boyd:** That is a legitimate concern. Even under the SRIT, it is very difficult to envisage circumstances in which increases will materially affect labour mobility—I just do not really see it. There will be much more of a discussion on that when we assume full control over rates and thresholds. I would argue that we need a significantly higher top rate of tax and a lower threshold, and there should be a discussion about

what that might mean for labour mobility. However, I think that it is a false issue in relation to the SRIT. If we stuck 2p on the SRIT, I do not think that we would suddenly see a flow of executives from Scotland to the rest of the UK.

It is interesting that the Scottish Retail Consortium argued that that effect is likely to ensue. I do not think that pay in that sector is such that that kind of change would affect the decisions of executives or even senior management on where to locate. Of course, such decisions rely on a number of things and not just the rate of taxation. They rely heavily on the quality of public services and the quality of life. I just cannot see that being an issue under the SRIT.

**Mark McDonald:** Does anyone else want to comment?

**Dr McCartney:** Stephen Boyd has covered the issue.

**The Convener:** That concludes the committee's questions. Do the witnesses have any further points to make before I wind up the session? Is there anything that has not been covered and that you want to say?

**Stephen Boyd:** I have a couple of points. We have done some work on the progressivity or regressivity of various tax systems, and I would be happy to send that to the committee. Also, I said that I would provide the work that we have done on the small business bonus.

**The Convener:** That would be helpful.

I thank the witnesses for answering our questions so comprehensively.

I will now suspend the meeting for five minutes to give members a natural break and to allow for the changeover of witnesses.

11:33

*Meeting suspended.*

11:38

*On resuming—*

## **Carers (Scotland) Bill: Financial Memorandum**

**The Convener:** Our next item of business is evidence from the Minister for Sport, Health Improvement and Mental Health as part of our continuing scrutiny of the financial memorandum to the Carers (Scotland) Bill. Mr Hepburn is accompanied by Scottish Government officials Dr Maureen Bruce, Moira Oliphant and Victoria MacDonald. I welcome our witnesses to the meeting and invite the minister to make an opening statement.

**The Minister for Sport, Health Improvement and Mental Health (Jamie Hepburn):** Thank you, convener. I do not have an opening statement. I am happy to move straight to questions.

**The Convener:** That is fine. As you were a member of the committee for a considerable time, you will know that I will start with some questions. I will try not to ask all the nice, juicy questions so that colleagues can have a go. [*Laughter.*] They were going to lynch me during the break. I will kick off and we will see how it goes from there.

In paragraph 88 of its report on the financial memorandum to the bill, the committee stated:

"The Scottish Government has indicated that it would intend to bring forward a supplementary FM to address the costs of any amendments at Stage 2. The Committee is of the view that sufficient time must be allowed between Stage 2 and 3 of the Bill to allow proper scrutiny of a supplementary FM, including time for the Committee to seek evidence from stakeholders and the Scottish Government."

How much time are we likely to get between stages 2 and 3?

**Jamie Hepburn:** I understand that the timetable is that we will have the stage 1 debate in early November and we will move to stage 2 pretty promptly thereafter. I think that stage 3 is likely to be in December or January.

**The Convener:** Do you feel that that allows sufficient time?

**Jamie Hepburn:** I certainly hope so. My understanding is that the committee requested sufficient time to assess any supplementary financial memorandum, and I was clear that we would provide a supplementary financial memorandum only if something that we put in the bill necessitated that. As I said in my letter to you, I do not think that we are in that territory.

**The Convener:** You state:

"I have decided to propose relatively minor amendments at stage 2 which will ensure that the way forward on the

waiving of charges could be delivered through regulations in due course."

That is a bit woolly. What timescale are we talking about?

**Jamie Hepburn:** For when the regulations will be in force?

**The Convener:** Yes.

**Jamie Hepburn:** The provisions in the bill will come into effect for the financial year 2017-18. I think that we will have enough time, following the bill being agreed to by the Parliament and royal assent, to have the regulations in place for implementation of the act.

**The Convener:** In your letter to us, you state that

"the Carers Bill Finance Group ... met for the first time in July"

and that it will

"further explore the assumptions behind the Financial Memorandum and consider any new evidence which may be available."

Will that feed into a supplementary financial memorandum?

**Jamie Hepburn:** I have made the point that we do not envisage there being a necessity for one but, if such a requirement emerged, we would provide one.

I stand by the financial memorandum that we have provided, which is based on the best available information that we had. We set up the finance group because of remarks that other stakeholders made, but I am not aware of any evidence having emerged thus far that would cause me to question the initial financial memorandum.

**The Convener:** You state that you

"consider the Financial Memorandum estimates to be robust, based on all the available evidence",

although the committee expressed a number of concerns in its report.

You state:

"There is a separate issue about the role of the Finance Group in recommending an appropriate method of distributing funding to local authorities, NHS Boards and the Third Sector. It has a role too in establishing procedures for monitoring demand, costs and achievement against the Bill's objectives. These are on a longer timescale".

What timescale are we talking about? It is quite difficult for us to pin these things down. You say "in due course" and mention "a longer timescale". We are not really getting anything concrete.

**Jamie Hepburn:** The group has two roles. One is to help to inform us as the bill proceeds. That is

imminent, and we need to get any information that the group wants to provide as soon as possible, but there is also a slightly longer-term role. I know that the committee has expressed interest in the Government always reviewing the legislation that it passes, and the group is there to help to inform such a process. That is a slightly longer-term piece of work.

**The Convener:** I open up the session to colleagues round the table.

**Jackie Baillie:** I will pursue the question whether there will be a supplementary financial memorandum. You seem clear in your letter to the convener that there will not be one at stage 2 because there will be only limited amendments. Will we get one at any stage?

**Jamie Hepburn:** At this stage, I do not envisage one. Having been a member of the committee, I recognise the absolute requirement for it to scrutinise every item of Government expenditure. If it emerged that a supplementary memorandum was necessary, we would of course provide it.

**Jackie Baillie:** So you are saying that, if the committee recommended it, you would provide one. The committee has already done that.

**Jamie Hepburn:** No. I am suggesting that, if it emerged as a necessity, which I do not think it has done thus far, we would provide one.

**Jackie Baillie:** Do you accept that there is no procedure for providing anything like a financial memorandum at the stage when you would be introducing regulations?

**Jamie Hepburn:** I accept that, which is why we said that we will provide any financial information in the policy note. I am very willing to keep the committee up to speed as we progress.

**Jackie Baillie:** By definition, secondary legislation receives a lower level of scrutiny. Although you have moved from a negative to an affirmative instrument, the regulations will still receive considerably less scrutiny than primary legislation does. Is that not the case?

**Jamie Hepburn:** That is in the hands of the Parliament's committees; if a committee wishes to scrutinise any statutory instrument rigorously, it is able to do so. The move from a negative to an affirmative instrument is an important change. Our primary reason for doing that is that we think that Parliament should have the ultimate say in moving forward.

11:45

**Jackie Baillie:** The problem is that the Parliament also sets out clear procedures in relation to financial memorandums, which should

go before committees with primary legislation. I am being told that tens of millions of pounds' worth of spending could simply slip through under secondary legislation. What estimates have you made of the total cost?

**Jamie Hepburn:** Let me be clear that we are not seeking to slip anything through; rather, we are seeking to be as clear as we can be. The matter is complicated and, to be candid, we are still discussing the issue with COSLA. I commit to keeping the committee informed as we move forward.

**Jackie Baillie:** Is it not the case that there is a difference of opinion between the Government and COSLA about some of the unit costs?

**Jamie Hepburn:** We explored that at stage 1. I go back to the point that I made before: on the information that we have available, the estimates that we set out in the financial memorandum are robust. The previous time that I appeared before the committee, when I spoke about the financial memorandum, I made the point that I would welcome any different methodology that any partners, including COSLA, might like to set out. I think that I am right to say that, thus far, we have received no such methodology. Nonetheless, we have set the finance group to work through the issues. I stand by the financial memorandum that we presented.

**Jackie Baillie:** Is it not the case that stakeholders have said that they believe that there will be enhanced costs? In setting out an ambitious policy and not following it up with adequate finance, are you in danger of disappointing people when it comes to implementation?

**Jamie Hepburn:** I agree that the bill is an ambitious piece of legislation in an area where we need to be ambitious. I am sure that you agree with that; there will be many carers in your constituency who find life difficult and I am sure that we can do more to support them.

I stand by the financial memorandum. We always seek to finance any legislative mechanism that we bring to Parliament.

**Jackie Baillie:** When the convener asked about regulations being made in due course, I was not quite clear that you gave us the requested information. When are the regulations expected to be made?

**Jamie Hepburn:** I hope that we can put them in place to have statutory effect at the same time as the bill.

**Jackie Baillie:** When will that be?

**Jamie Hepburn:** That would start in 2017-18.

**Gavin Brown:** Minister, do you stand by the financial memorandum?

**Jamie Hepburn:** Yes.

**Gavin Brown:** How is the cost of replacement care dealt with in the memorandum?

**Jamie Hepburn:** We were clear that, at that stage, we had not come up with the appropriate mechanism to provide the information. I made that perfectly clear when I presented the financial memorandum and I have been clear with the committee. It is an on-going matter. I am happy to keep the committee up to speed and I expect that it will want me to keep it up to speed, so I commit to doing so.

**Gavin Brown:** So there is no figure for replacement care in the financial memorandum.

**Jamie Hepburn:** My memory—my officials will correct me if I am wrong—is that there was no figure at that time.

**Gavin Brown:** The bill team gave evidence to the committee and said on the record that the cost of replacement care would on current prices be in the region of £30 million. We asked why that was not in the financial memorandum and we were told that it was because the team had worked out the figure of £30 million after the memorandum was published. How is it that the Scottish Government is telling us that there could be costs of £30 million on top of those in the financial memorandum, yet you say that there is no need for any additional information?

**Jamie Hepburn:** I am not saying that there is no need for additional information. As a former member of the committee, I recognise the importance of assessing any financial commitment that the Government seeks to make. The point that I make is that we have not yet defined what the mechanism will be and, without having defined that, we cannot say definitively what the cost will be. However, I do not think that the cost will be anything approaching £30 million.

**Gavin Brown:** How can you say that? What will it be?

**Jamie Hepburn:** We have not defined it ultimately. I am happy to come back to the committee once we have finessed that further, but I can say that it will not be £30 million.

**Gavin Brown:** The problem is that you have said that before, minister. I quote directly from the *Official Report* of 3 June 2015, when you told me:

"Having committed to come back to you in writing to clearly establish whether the £30 million is an annual figure, I will commit to providing a further breakdown of what it relates to, if the committee will find that useful."—[*Official Report, Finance Committee*, 3 June 2015: c 53.]



Can you now tell us whether it is an annual figure and why you have not come back to us to tell us how it is broken down?

**Jamie Hepburn:** Having said that the cost will not be £30 million, I can tell you that it will not be an annual figure. If you feel that we have not provided you with the requisite information, I am happy to look at that and come back to you, and I apologise if we have not done that.

**Gavin Brown:** What do you mean by “if we have not done that”? I read out what you said. Do you feel that you have given us a breakdown?

**Jamie Hepburn:** If you are telling me that you do not feel that we have done that, I am willing to concede that, and we will look to provide you with further information.

**Gavin Brown:** That is really important. I am pressing the point because that is potentially the biggest single slice of the whole expenditure, and for the memorandum not to have that cost is a big mistake, which you have not corrected, when there will clearly be costs for care.

Even if you do not think that the cost will be £30 million, the cost will be borne by someone—whether that is by the Government, by local government or by individuals—and, under standing orders, the Government has to tell us what it thinks the cost will be and which of the three categories will bear it. However the waiving of charges issue is resolved, if there is to be respite for the number of carers that we all want, a large cost will be involved. The only thing that you are arguing about is how it will be broken down and who will pay for it but, regardless of who pays for it, that should all be clear from the financial memorandum.

**Jamie Hepburn:** I take your perspective. I am clear that we can cost things only when we have definitively set out how we will take the matter forward. We are working on that, and I have been candid about that. I am not trying to hide anything from the committee. We are still talking to COSLA about the costs and we are not quite there yet, but my commitment is to inform the committee as quickly as we can.

**Gavin Brown:** Forgive me for pursuing this, convener. Mr Hepburn, you said clearly in the financial memorandum that in 2017-18 you expect 11,000 carers to receive support. Not all of them will be entitled to a break, but they will get some support. You also said that by 2021-22 more than 153,000—almost 154,000—will be getting support. Again, not all of them will get breaks, but I presume that a proportion will.

You can predict how many people will need support, so surely the Government can predict on current modelling what percentage of that 153,000

are cases where additional care is likely to be needed while the carer is away. I presume that you have some idea of the average weekly cost of care. Surely the Government ought to be in a position to estimate the likely costs. Of course there will be a range and it will depend on demand, but you must have some idea of what the likely costs will be.

**Jamie Hepburn:** We continue to discuss that with COSLA, which represents local authorities. It is the local authorities that will have the delivery function. We are trying to get a solid and reliable figure, which I will present to the committee as soon as possible.

**Gavin Brown:** Okay, but can you say whether more or less than 50 per cent of those carers would be likely to require a break?

**Jamie Hepburn:** I will reflect on that point and write to provide you with that information.

**Gavin Brown:** Subsequent to your appearance at the committee in June, you wrote to us on 10 June 2015 to say:

“As set out in my previous reply to you of 28 May, the waiving of charges issue is to be resolved for Stage 2.”

My reading of your most recent letter is that it is not to be resolved for stage 2 and that it will be resolved after the bill has been passed.

**Jamie Hepburn:** I have decided to resolve the issue by using a statutory instrument. We can rush to try to resolve it—although it is a complex matter and not a straightforward one—or we can put in place the appropriate mechanism to support carers appropriately. I think that carers out there would expect us to do the latter, and the issue can best be resolved by having a process in which we do that by regulations, which will be an affirmative instrument that is subject to parliamentary scrutiny, as any affirmative instrument is. That will give us space to proceed in the appropriate manner.

That is how I have decided to resolve the matter, so that is the resolution. We are taking it forward by statutory instrument.

**Gavin Brown:** Is that not delaying resolution, as opposed to resolving it? Just to say that there will be regulations does not resolve the matter. The issues remain the same; you are just delaying a decision on them.

**Jamie Hepburn:** No—a decision is clearly imminent. We continue to discuss the matter with local government and with the national carers organisations. Incidentally, I think that carers out there would want to know that we are resolute in the commitments that we have made to them.

We are just discussing the mechanism by which we seek to deliver, and I would argue that that

creates no more delay than any other statutory instrument or any bill. We deliver things by that mechanism. In my time as a member of the Scottish Parliament, I have scrutinised many bills under which we have sought to take forward our statutory obligations by way of regulation. I do not think that our approach to this issue is any different.

**Gavin Brown:** I shall close by saying that I strongly believe that the Government ought to produce a supplementary financial memorandum, because I think that you have missed what is potentially the biggest slice of the cost. If it is not the biggest, it is certainly one of the biggest slices, so I do not think that the financial memorandum represents best endeavours. I could be wrong, but I will leave it at that.

**The Convener:** That concludes questions from committee members, but I still have a few things to ask. Minister, you said that you do not want to rush to resolve the matter, but it is 16 weeks since you were last at the committee. As you know, and as you have said on a number of occasions, you were a member of the committee, and yet you say that there is no defined mechanism. You have said that you have not defined the cost, but it will not be £30 million. However, the financial memorandum indicates your best estimates, so will the figure be £29 million, £9 million or £15 million?

We really need a bit more information. It is not as if we are asking you back after you were here last week. Sixteen weeks is a long time, and I would have thought that negotiations and deliberations would have progressed somewhat, even before you came to the committee and before the financial memorandum was published, let alone in the 16 weeks since you were last here. Do you not feel that that is somewhat unsatisfactory? If you were back here on the committee, how would you view the position?

**Jamie Hepburn:** I recognise that committee members take their scrutiny role seriously, as I did when I was a member of the committee. All that I can do is be as candid as I can be. As I said, we are in dialogue with COSLA on the matter and we have not reached agreement yet. It would clearly have been better if I had been able to come along today and say that we were at that place, but we are not at that place. I hope to be there very soon, and as soon as we are, I will inform the committee.

**The Convener:** How soon is “very soon”? Will it be a week, two weeks or three weeks? Is there any deadline for concluding those discussions, given the stage that we are approaching?

**Jamie Hepburn:** I certainly hope to do that imminently. I hope that it will be only a matter of weeks.

**Jackie Baillie:** I have a question for you, convener, because I am not sure what we can and cannot do, given the evidence that we have heard today. Given what we have heard from the minister, would it be appropriate to consider a supplementary note to the committee’s report?

**The Convener:** We will discuss that when we move into private session.

That concludes our questions. I thank the minister for his evidence.

11:59

*Meeting suspended.*

11:59

*On resuming—*

12:00

*Meeting continued in private until 12:17.*

## **Subordinate Legislation**

### **Land and Buildings Transaction Tax (Open-ended Investment Companies) (Scotland) Regulations 2015 (SSI 2015/322)**

**The Convener:** Item 4 is consideration of a negative statutory instrument relating to the Land and Buildings Transaction Tax (Scotland) Act 2013. There appear to be no comments from members on the instrument.



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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