



OFFICIAL REPORT
AITHISG OIFIGEIL

Finance Committee

Wednesday 29 June 2016

Session 5



The Scottish Parliament
Pàrlamaid na h-Alba

© Parliamentary copyright. Scottish Parliamentary Corporate Body

Information on the Scottish Parliament's copyright policy can be found on the website - www.parliament.scot or by contacting Public Information on 0131 348 5000

Wednesday 29 June 2016

CONTENTS

	Col.
CABINET SECRETARY FOR FINANCE AND THE CONSTITUTION	1
SCOTTISH FISCAL COMMISSION (TEMPORARY APPOINTMENT)	28

FINANCE COMMITTEE
2nd Meeting 2016, Session 5

CONVENER

*Michael Russell (Argyll and Bute) (SNP)

DEPUTY CONVENER

*Alex Johnstone (North East Scotland) (Con)

COMMITTEE MEMBERS

*Neil Bibby (West Scotland) (Lab)
*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)
*Ash Denham (Edinburgh Eastern) (SNP)
*Kate Forbes (Skye, Lochaber and Badenoch) (SNP)
*Murdo Fraser (Mid Scotland and Fife) (Con)
*Patrick Harvie (Glasgow) (Green)
*James Kelly (Glasgow) (Lab)
*Ivan McKee (Glasgow Provan) (SNP)
*Adam Tomkins (Glasgow) (Con)

*attended

THE FOLLOWING ALSO PARTICIPATED:

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

CLERK TO THE COMMITTEE

James Johnston

LOCATION

The Mary Fairfax Somerville Room (CR2)

Scottish Parliament

Finance Committee

Wednesday 29 June 2016

[The Convener opened the meeting in private at 09:29]

09:38

Meeting continued in public.

Cabinet Secretary for Finance and the Constitution

The Convener (Michael Russell): For the record, I note that we have been in private session and have dealt with item 4 on the agenda—we have not wasted our time before welcoming the Cabinet Secretary for Finance and the Constitution.

I congratulate Derek Mackay on his new position. So many things have happened in the past few days that it seems a long time since you were appointed, cabinet secretary. You are very welcome and we are very pleased that you are here for the first time in front of this committee. I am sure that you will be here many times.

The cabinet secretary is accompanied by officials from the Scottish Government: Alistair Brown, the acting director of financial strategy; Scott Mackay, the deputy director for financial programme management; and Andrew Watson, the deputy director for financial strategy.

I know that you will want to make an opening statement, cabinet secretary. After that, I will say a word or two and then we will start the questioning. You might want to tell us why you have been slightly delayed, too, and how things are this morning.

The Cabinet Secretary for Finance and the Constitution (Derek Mackay): Thank you for the warm welcome to this meeting of the Finance Committee. I appreciate the committee's co-operation. The reason why I am slightly late is that I was having a phone call with the chancellor, which I thought would help the conversation and discussion this morning.

When I accepted the job of finance secretary, I was aware that I was inheriting the post at a time of great opportunity, but also in a period of increasing complexity and uncertainty. It is fair to suggest that the level of constitutional and fiscal complexity has increased significantly over the past week. We are, in many ways, in uncharted territory.

Although many political choices lie ahead of us, I hope that we can all agree that the Scottish Government and the Scottish Parliament must come together to ensure that we continue to manage the public finances competently and in the interests of the people of Scotland. I come before you today in that spirit, and commit to working with all members of this Parliament, particularly those on the Finance Committee, to ensure that we achieve those outcomes. I am engaging closely with Her Majesty's Treasury and my counterparts in the other devolved Administrations in the interests of our economies and the public finances.

The First Minister made a number of statements yesterday with which I associate myself. In particular, I will adopt an approach to the public finances of Scotland that is focused on stability in our economy and reform and improvement in our public services, and which continues to serve this Government's vision of a more inclusive and equal society.

The events of the past few days are likely to have a material impact on the public finances, but we cannot let that distract us from the immediate business of government. Even prior to Friday, the devolution of powers under the Scotland Act 2016 represented a paradigm shift in the way in which we run our finances and set our budgets. No longer are we dealing with a budget that focuses almost entirely on expenditure.

In the coming few years, not only will we see new powers over rates and bands for income tax, and over demand-led social security arrangements, but greater emphasis will be placed on revenue forecasts, block grant adjustments and budget reconciliations—more so than in any previous budget. The rules have changed and it would be helpful if we could consider and agree today how we might best work together to consider how those new rules are to be reflected in the written agreement and in our processes for the 2017-18 budget and for budgets in the years beyond.

First, as I set out in my letter of last week, if the committee would find it helpful to receive informal briefings from officials on the Scotland Act 2016 powers and on the associated fiscal framework agreement, I would be very glad to arrange that. Beyond that, it might be helpful to differentiate between the issues for the long-term future of the budget process and issues for this year.

In the longer term, we need a robust and credible budget process that adequately balances the need for accurate and efficient tax forecasting and collection with the need for effective parliamentary scrutiny. We need to deliver on the principles that are promoted in the original financial issues advisory group recommendations,

while not being blind to the fact that, for obvious reasons, those recommendations were made in an entirely different context.

In that regard, I agree with the relevant recommendation in the previous Finance Committee's legacy paper and suggest that we not only establish a working group involving representatives from the Scottish Parliament and the Scottish Government but, potentially, invite contributions more widely from civic Scotland to consider what process model would best reflect the extra requirements flowing from the new fiscal powers. Such a group could helpfully include the Scottish Fiscal Commission, which will become an increasingly integral part of the budget process. If the committee supports such an approach, I suggest that we invite our respective officials to work together to develop some options for our joint consideration later in the year.

On the immediate priority of developing an effective process for developing and scrutinising the draft budget 2017-18, my letter to the committee sets out the Government's view on a range of issues that are associated with the new budget cycle, particularly in the first year of the new powers. My overarching priority is that the people of Scotland must have confidence in our collective ability to use the newly devolved powers efficiently and effectively. In my letter, I set out the view that publishing the draft budget after the chancellor's autumn statement would represent the most effective way of managing the risks and volatility that are presented by the relationship between the autumn statement, related Office for Budget Responsibility forecasts and the Scottish budget.

Such an approach would improve the accuracy of budget forecasts and allocations, reduce the need for revisions to forecasts and allocations ahead of the budget bill and, in my mind, enhance the overall credibility of the budget process. The events of Friday and the days since, and the telephone conversation that I have just had, reinforce my view on those issues.

09:45

In his statement on Monday, the chancellor appeared to rule out an immediate emergency budget, but it is not yet clear what a future United Kingdom Government's fiscal plans will be or precisely when they will be set out. Despite the new powers under the Scotland Act 2016, almost 60 per cent of the revenues that are generated in Scotland will continue to be determined in Westminster. The block grant adjustment will not be determined until the autumn statement is made, and it seems clear that the OBR forecasts from the March UK budget this year will be subject to significant change.

As a consequence, the UK Government's plans will continue to have a material impact on the fiscal position in Scotland. It will therefore be important to take appropriate time to consider those plans ahead of publishing our budget, which will include considering whether the period beyond 2017-18 should be covered, given the potential timescales for the UK's proposed exit from the European Union between now and the end of the spending review period in 2019-20.

With that in mind, I invite the committee's views on the budget timetable and specifically on my preference for the Scottish Government to publish the draft budget only once the position for the public finances in Scotland and the UK as a whole is made clear through the chancellor's autumn statement. I am happy to discuss those matters and other issues that the committee has in mind.

The Convener: Before I come to a question, I will make a point on what you said about the budgetary model. I re-emphasise your point that this is a parliamentary process; it was designed as a parliamentary process, in which the committee fulfils a fundamental role. The nature of that goes back to the Parliament's founding principles. It is therefore fundamental for the Parliament to lead the tripartite review, and I welcome your comments on that. I agree that, over the summer, the committee's clerks should discuss with your officials the shape of the review process, so that the committee can consider the matter at its business planning day.

I thank you for your constructive approach to working with the committee. Members will have many questions to ask you and I look forward to working with you on the issues. The clear first question that I must ask is: what is the assessment by you and the Scottish Government of the potential impact of the leave vote on the Scottish budget and the Scottish economy?

Derek Mackay: It is clear that the financial impact on the economy—the economic turbulence—is significant now. That will inevitably lead to public spending decisions and tax decisions; the chancellor has said that and the conversation that I just had with him confirmed what has been said publicly. It is clear that, although an emergency budget is not proposed, a significant shift will take place as the UK Government responds to the economic turbulence and the change in circumstances.

If there is to be an exit, Scotland will experience an impact in a range of areas—in funding streams, the wider economy and investment decisions. Some companies might put investment plans on pause, which would have an impact on the wider economy and in due course on the Government's fiscal decisions. The impact has been quite serious already and I think that it will be prolonged.

The chancellor has said that he believes that the UK will be a poorer country as a result, and the predictions that have been made are of concern. An impact on Scotland is inevitable. That is why, in pursuing our ambitions, the Scottish Government is trying to sustain Scotland's place in the EU. We will work to deliver stability and then work through all the potential consequences. Partners and stakeholders in Scotland are trying to provide continuity and stability as we speak.

The impact on the country will be profound. Members might ask questions about individual funding streams such as structural funds or about other areas in which Scotland has played a major role.

The Convener: We will get into those wider issues, but first I would like to focus on the assumptions that you have been making. You have been in your post for something like five weeks, and I presume that the assumptions that you have been making about the budget that is about to go into train have changed significantly in the past five days, and that therefore the attitude that you will be taking to the budget will also have changed.

Derek Mackay: I could not fairly say—you would not believe me if I did—that I had forecast this outcome, but let us say that it has vindicated what I wrote in my letter about the number of variable factors that affect the timing of the budget.

It is far too soon to say what the impact will be, because we do not know. Nobody knows the long-term impact of the decision. However, I would reflect on the fact that there were already variables and impacts that we had to consider in setting out the budget timescale for Scotland. The uncertainty that has been added by the vote and the fallout has vindicated my position: we need extra time to ensure that we have an accurate and credible budget process that is able to take into account all the relevant factors. As I set out in great detail in my letter, the decisions that we have to make in taking forward the budget process are highly dependent on forecasts, on tax revenues and on the position relative to the UK.

I respect the committee. The process must be fully transparent. I want to co-design how we deal with that this year, which clearly is a transition year, and co-design the solution for the future, recognising that the Parliament's powers have moved on, as the previous Finance Committee acknowledged, and recognising the wider issues that affect us.

The Convener: The term "co-design" is a useful one.

Alex Johnstone (North East Scotland) (Con): It is interesting to hear the cabinet secretary talk about the impact of withdrawal from the EU, given

that many would suggest that the impact will be of an order of magnitude smaller than what the impact would be if Scotland withdrew from the UK. Do you take any lessons from the thought process that took place in the independence referendum for the experience that we will have withdrawing from the EU?

Derek Mackay: I am surprised that Mr Johnstone wants to get into Scottish independence. I suppose that I could point out the difference that at least when we offered the choice to the people in Scotland, we had a plan in the white paper. There appears to be no plan now, and it is fair to say—even Alex Johnstone would agree—that the UK Government is going through some turbulence. The Labour Party is not escaping that situation either. In all seriousness, I make that comparison to say that if you put an offer to the people, it is good to have a plan.

We are dealing with the immediate fallout of that decision. We are striving to secure Scotland's position and working in the best interests of our people by delivering strong, competent government, pursuing Scotland's interests and looking ahead to the challenges that we will face. The committee will have a huge role in shaping our process as we adapt to the circumstances.

Alex Johnstone: We are aware that we already had problems with timescale; they are discussed in your letter. What will the changes that have happened in the past few days do to the pressures for you and the Parliament in fitting the process within a timescale?

Derek Mackay: I thank Mr Johnstone for those comments and the recognition that we already had important issues to wrestle with. Before the EU referendum, there was already transition, change and uncertainty in how we would go forward and the forecasts that we would rely on. We were already expecting the chancellor to allocate a further £3.5 billion-worth of cuts to his own budget, and we were going to have to deal with that, along with all the other variables in the letter.

The result has added uncertainty to the shape of the UK Government. The chancellor does not know whether he will be the chancellor or who his successor may be, but he knows that there will be significant financial adjustments as a result of the decision and, it follows, an impact on budgets and the wider economy, to which we will all have to respond. The chancellor was of the view—although anything could happen between now and then—that the autumn statement is likely to have such adaptation. Therefore, it is wise to wait for that position in order to understand Scotland's budgetary position. That is not just because our spending power will change but because all the forecasts will change, and that information that we rely on will be more significant than ever.

On our immediate spending pressures, it is too soon to say, but we all know that the timescale has changed significantly and there is now more weight on the chancellor's autumn statement. I suspect that that will probably not be the end of the matter, because the long-term consequences of the decision remain to be seen.

Alex Johnstone: Last year's process was truncated. We are now in what the cabinet secretary himself described as a transitional year, and it seems that the process in this unique and difficult year will have to be truncated again. Are we at a stage where serious concern must be raised about whether we can adequately analyse the budget in the timescale that we have, and whether there is a danger that the Government might be allowed to progress matters without proper scrutiny from Parliament?

Derek Mackay: No. If we look at potential scenarios for timescales, I think that it is still perfectly possible to have adequate scrutiny of the Government's budget. Surely all members of the committee would appreciate that we would rather have an accurate budget than an inaccurate one that is subject to so much change that I would simply respond to every question by saying, "Oh, that is likely to change." We must have an accurate and credible draft budget.

I will not spend my contributions this morning saying that the added uncertainty in the economy and the likelihood of change are down to the Conservative Government's choices. However, the reality is that some or all of the budget timing issues have come from when the UK Government has chosen to do its spending reviews and to determine its budgets, because such a large part of our budget—and this will continue to be the case—comes from the block grant and decisions of the UK Government. Therefore, we are still, in large measure, in its hands when it comes to the large financial decisions that we should take. The room for manoeuvre that we have on other taxes, because of the fiscal agreement, still relies on us to make sound decisions flowing from what the UK Government proposes to do.

I accept the point that we must have clear Finance Committee and parliamentary scrutiny of our draft budget. However, it has to be a credible and accurate proposed budget so that you know that what you are studying is reasonable and it has to be given proper time for all the political negotiation that will be required between the Government and the Parliament. I give the committee a pledge that it will have maximum involvement in how we design that process.

Of course, what we have not solved—and it will be for the joint working group, if it is agreed, to consider—is another issue that is to do with not just the reliability of forecasts, or the outcome of

UK spending decisions, but the fair ability of the Government to make tax decisions that do not necessarily encourage bad behaviour, because we want to be able to raise our taxes. Therefore, there is also thinking around how the Parliament's scrutiny process adapts to the fact that we are no longer just a spending Parliament but a tax-raising one too.

Adam Tomkins (Glasgow) (Con): Thank you for your statement, cabinet secretary. I do not want to talk about Scottish independence, it will not surprise you to learn. I want to talk about effective parliamentary scrutiny. Just now, the word that you used was that you want parliamentary scrutiny to be "adequate". With respect, I want it to be better than that—a lot better. I want it to be as effective and as robust as it can be. That is not just in the Government's interests but in Scotland's national interest. It is, of course, for the Parliament—and not for the Government—to decide what effective parliamentary scrutiny is, as I am sure that you would agree. What can you say to reassure me, a new parliamentarian, that the process that you are proposing, which I understand is that a draft budget will not be given to the committee until after the autumn statement, can result in the most effective and robust parliamentary scrutiny?

Of course, the autumn statement is misnamed; these days it is often given in the winter, only a fortnight or so before Christmas. Are you proposing that a draft budget will be given to the committee before Christmas, or will that happen in the new year? If you are proposing that the start of the parliamentary budget scrutiny process be delayed, are you also proposing that the end of the process be delayed, so that we have more time in spring? Does the clock still stop at the same point in the calendar?

10:00

Derek Mackay: You ask a number of excellent questions. On what is "adequate", let me take a binary position: the opposite of "adequate" is "inadequate", and I do not want an inadequate budget scrutiny process. We share a view on the standard of the scrutiny of the budget that is undertaken.

I am just striving to ensure that the committee gets sight of an accurate, credible budget; I do not want to rush in. Given its position, the UK Government cannot even say when the autumn statement will be—for reasons that I understand—so it is difficult for me to give you my proposed timescale.

However, I can again give you a pledge that, as soon after the chancellor's autumn statement as we can reasonably publish our draft budget, we

will do so—if that is agreed by the committee; this is a matter for parliamentary agreement and you are right to point out the protocol. I am not trying to delay publication of the budget for any reason other than that I want it to be credible and based on spending decisions that have a material impact on our decisions about tax revenue and spending.

The timing is, in part, in the UK Government's hands. This morning, I expressed the view to the chancellor that our having to wait is putting us in an uncomfortable place. The issue is more significant than ever. The timescale that you envisaged might be right, but I do not know whether it is, because the UK Government does not know when it will make its autumn statement. To be fair, it cannot even say whether the chancellor will be George Osborne or his successor. The Government will make its decisions, and ours will follow from that.

As for the autumn statement happening in winter, it appears that civil servants can redefine many things, including our seasons. The statement could well be made in winter but, frankly, the sooner it is made, the better, so that we can all get on with doing what we want to do with greater certainty. There might be further budget variations after that, but I am not proposing to wait for other events; I am saying that that is the most significant event.

This is why the process has to change. The currently agreed process does not fit with the new timescales for forecasts from the OBR or the Scottish Fiscal Commission or with anything else. It just does not fit with what we seriously rely on in designing a credible budget. That is why we are very much in transition this year, as I said, and I want to work with the committee to co-design the process that will work best in future.

That will involve looking at timescales at the other end of the process. We will have to consider the overall timescale and how the committee plans and conducts its business—how intensively it sits, hears from witnesses and engages with other committees. That is very much a matter for the committee, but we will support the committee in that regard.

There are other drivers at the other end of the process, such as intimation of the Scottish rate of income tax, and other things that we have to do to fit in with the formulaic approach to the Scottish Parliament setting the budget.

Adam Tomkins: Your answer was partly reassuring, but not quite as reassuring as I wanted it to be.

I very much welcome your pledge to co-design the process with the committee. Perhaps you can be a little more specific about what you have in mind—albeit that what you say cannot possibly

commit you; I just seek an indication of what you have in mind. How long after the autumn statement do you think that it will be before you can bring a draft budget to the committee? Are we talking about a week or two, or are we talking about six or seven weeks? Are we talking about a process that could realistically start before the Christmas recess, or would it have to start after that?

Also, you did not address my point about whether we still have to finish at the same time if we are not going to start until later. Is there any way in which we can extend the process later into the spring or summer?

Derek Mackay: I suppose that we will have to look at what has to be done—that is partly why we have to redesign how we do our business, because there are other parts of the parliamentary process that we need to undertake. We need certainty at the other end for our stakeholders and there is also the process that the Parliament has to go through for the staged approach to the budget. That will all have to be considered.

The unknown determinant here is when the UK autumn statement will be. I am pledging to turn that around into the Scottish budget as quickly as I can. Do not think for one minute that we will not be doing anything until the chancellor's autumn statement. We will plan and undertake to deliver the budget but what we do not know is the scale of adjustment. I will happily look at the timetable at the other end in partnership with the committee—because the committee will help to determine this—to see whether we can extend it.

On exact timings, my understanding is that, in the past, the time from a significant shift taking place to the publication of a budget has been about three weeks, but we are in unprecedented times. I would try as best I could, for all the reasons that you understand, to publish a draft budget in a matter of weeks after the chancellor's autumn statement. What I do not know is the scale of change that whoever is chancellor will propose. However, I will work very hard to get that budget produced as quickly as possible thereafter if the committee agrees with that approach.

In these times, we have to work together cross-party and that is what I am proposing. Equally, we have a huge political difference with the UK Government, but we are also trying to deliver stability, continuity and sound government at the same time in financial matters and the Scottish budget. I am trying to be as open minded as I can be while recognising that some of the other determinants in the process are already set. That includes when we have to execute other functions as per the budget process.

Adam Tomkins: Okay, so—

The Convener: No, sorry—can I come back to you? There are other members with questions.

Patrick Harvie (Glasgow) (Green): Good morning, cabinet secretary. You used the word “unprecedented” a moment ago. A great deal about this situation feels unprecedented or unique. I remind you that your party formed a minority Government in 2007 and not very long after—not in a matter of weeks but not very long after—faced the beginning of a financial crisis that clearly was going to have a profound impact for years to come.

Part of what your predecessor did in his approach to that crisis was not merely to rely on budget scrutiny but to have plenty of up-front discussion across the political spectrum about the broad brushstrokes—about principles. For example, there was discussion about whether everyone agreed that trying to retain maximum employment, even if it meant a pay freeze, was preferable to laying off large numbers of people in the public sector. Those broad brushstrokes were agreed in advance of the development of the budget, not as an alternative to budget scrutiny when the draft budget was published.

Is that going to be your approach in the current situation? Also, is either your Government or, to the best of your knowledge, the UK Government making assumptions about the long-term impacts of the current situation—for example, on the value of the pound? Are you working on an assumption that that might be a permanent correction, or do you have other scenarios that you are developing as you try to explore what the implications will be?

Derek Mackay: On the first issue, on a matter of principle, the Government has been elected on a manifesto that I think the First Minister has made clear we aim to achieve in full. That is what we are working towards—the delivery of our manifesto. There is also the not insignificant matter that, irrespective of the timing of the budget and the other impacts on the budget, I have to build a majority for the Scottish budget. I expect those discussions to happen in advance of publishing what the Government proposes to do, so there will certainly be on-going engagement on that.

On the longer-term economic impact, it is fair to say that the result and its impact have come as a shock. The UK Government, commentators and economists are all looking at the situation. I am very mindful—more so than ever—that forecasters and economists will come up with models, but what they provide are only forecasts.

We know that the referendum result will have a short, a medium and a long-term impact. If I boil it down to what the chancellor has said, the UK will be poorer. That is his position. He has said other things publicly, such as that there would be an

emergency budget and that there may be increased taxes and reduced public spending. From memory, I think that Alistair Darling, when he shared a platform with the chancellor, took a similar view.

The consensus is that there will be a short, a medium and a long-term impact on the economy. Everyone is working to stabilise the impact. We will—as we do every day and every week—look at the impact on Scotland and what we can do to assist. Of course, we are pursuing an agenda to continue Scotland’s place in the EU. There have been a number of inquiries from politicians and businesspeople about how they think that they could fit within that context. There is huge financial challenge, but there is opportunity, too, for sustainable economic growth and the impact of that on fiscal policy for the UK and Scottish Governments. We are looking at all the scenarios.

We will also undertake immediate inquiries to give people reassurance around some of the funding streams that are EU related. Does that assist?

Patrick Harvie: There are clearly several kinds of impact. One will be about EU funding streams. Clearly, that funding will not be taken away altogether, but there is no doubt that there will be an impact before the Brexit negotiations are complete. Another is the impact of the current financial crisis on the revenues that come from devolved taxes in Scotland’s developing taxation system. The third is the continuing financial relationship with the UK where—sadly—there is no no-detriment principle for massive gambles that the UK Government chooses to take with the economy.

It is too early to disaggregate all three of those impacts and to start to pin them down, but the impacts will be based on a range of scenarios. Is it the UK Government or your Government that is most responsible for making the assumptions that will inform the decisions that we make?

Derek Mackay: A great number of our assumptions would be based on what the UK Government does. We will undertake our own work, and we will have a different agenda. The UK Government will make its own assumptions.

I will be able to say more this afternoon about some of the immediate decisions that the Scottish Government has taken in light of what has happened. Mr Harvie referenced devolved taxes; I will be able to say a wee bit more about that in this afternoon’s outturn statement. What has happened is a material consideration in that area; it absolutely relates to devolved taxes and what has happened in the previous financial year and what we should do going forward.

Murdo Fraser (Mid Scotland and Fife) (Con): I have three brief questions. The first is on the timing of the budget and the implications for budget scrutiny. In the previous session of Parliament, I convened the Economy, Energy and Tourism Committee. I think that the members of that committee would agree that we had an unsatisfactory situation: all subject committees had to scrutinise the budget in advance of its publication.

We face a scenario in which the subject committees might have a matter of weeks—if that—in which to scrutinise the budget and to report to this committee as they are required to do. I entirely understand that that scenario is not of your making, cabinet secretary; we all understand why it has come about. However, given that the scrutiny period might fall over the Christmas recess, there might be only a matter of days in which to call for evidence and consult stakeholders. Have you thought at all about how the process might be enhanced or made credible, given the very short time likely to be available for subject committees to scrutinise the budget?

10:15

Derek Mackay: If we deliver some innovation here, we can think differently about how we approach scrutiny. The committee could focus its attention on other things. That relates to Mr Harvie's view on pre-budget engagement. There is potentially room to help to shape public policy and guide the Government on priorities. Why should it just be the case that the Government publishes a budget and then members scrutinise it? Is there not a role for committees to help to guide the Government even before it has published a draft budget?

We could be creative and innovative about engagement in that process. In these transitional times, we could take a different approach to how other subject committees engage, how proactive they are, how intensively they look at the budget and how they programme their work. If we have more clarity on the timescales, the budget process could have absolute priority at that point for those committees. There might also be opportunities for committees—this might not be too popular—to sit more often during that period.

I was a member of the Finance Committee, albeit briefly, when I first became a member of Parliament. The budget was not always intensively scrutinised after it was produced; sometimes there was a period in which there was no active scrutiny. I think that we can do things differently. I am trying not to curtail the length of time available, but that is just inevitable given the issues that have arisen.

We should co-operate to innovate and ensure that there is adequate scrutiny. Subject committees could plan their scrutiny ahead and the Government will look at how much time the committees can be given, bearing in mind Mr Tomkins's point about an extension at the other end of the process.

Murdo Fraser: That response is helpful. We can explore those suggestions further with you and your officials.

My second point relates to the comments that you and the convener were making earlier about the economic impact of the Brexit vote. Is there a danger of talking ourselves into a recession? There has been so much conversation about uncertainty that we sometimes forget that the UK is still in the EU for the time being. There is as yet no timetable for leaving and the fundamentals of the economy are still sound.

Perhaps we need a bit more positivity and reassurance about some of those issues, rather than a lot of doom and gloom from politicians that might just exacerbate an already troublesome situation.

Derek Mackay: To be fair, I did not use the word "recession". It was you who used the word "recession" and said that no one should mention recession. I have a happy, positive disposition in life and I have been rather generous to the UK Government.

You said that this is not a mess of the Scottish Government's making—it certainly is not. I do not throw back that it is a Conservative mess, as we are at a point at which we have to work together. Nobody wants a negative impact on our people or economy—in the whole of the UK, not just in Scotland. I agree that we should get on with the job, deal with the situation, deliver stability as best we can and be pragmatic about the challenges that we face.

Of course, members have different political aspirations and different views on the outcome of the referendum. However, I think that there is a degree of consensus—we saw that even yesterday in the chamber—about pursuing Scotland's interests. We should work together to a degree and be positive about delivering stability. The Scottish Government should take the opportunity that exists, based on the people of Scotland's very positive view of Europe.

I will not be talking Scotland down; I will be using my role to try to enhance our position and deliver as much protection as we can for our people, in light of the circumstances. If you would like to join us in talking up Scotland, I will be the first to welcome that—and that includes in the Parliament's plenary session this afternoon.

Murdo Fraser: I hope that you will not talk anybody—not just Scotland—down. We will see.

My final question is on a slightly distinct matter. Your predecessor announced last year that there would be a review of business rates. Are you able to tell us when the remit for that review is likely to be published and how extensive it is likely to be? Will it just be about tweaking some of the process issues, such as the periods for rate revaluations, or will it be a much more fundamental consideration of whether the current system should be replaced with something more radical?

Derek Mackay: I am not sure how much time we have, convener, but I could go into more detail. It is probably more helpful if I write to the committee on the current position on the review of business rates. I am populating the membership of the review and have met the chair. I can say more about the remit and the direction of travel, and I am happy to write to the committee to update it more fully on the review and what I have directed it to explore. The timescale for reporting back is, I think, summer next year.

Business rates are certainly an area in which the committee will be interested. I am happy to give more detail in writing about the work that has been undertaken. That includes membership, which I have probably progressed since the committee last considered the matter.

The Convener: Is that acceptable, Mr Fraser?

Murdo Fraser: Yes, thank you.

The Convener: We look forward to getting that information from you, cabinet secretary.

I counted your three questions, Mr Fraser, and they are all complete.

Kate Forbes (Skye, Lochaber and Badenoch) (SNP): Bearing in mind the economic and political uncertainty on which we have already touched, cabinet secretary, do you have enough confidence at the moment to do a three-year spending review?

Derek Mackay: With the degree of uncertainty and volatility that exists right now, it would be unwise to publish a three-year spending review. Therefore, we propose a one-year budget and will not deliver a three-year spending review at this time.

As it happens, the UK Government had published a three-year spending review, but it is clear that it might revisit that as it approaches the issues that it faces. Therefore, it is fair to say—I am being perfectly transparent here—that it would be unwise to publish a three-year spending review and that I am considering a one-year budget in light of all the circumstances that we face. If we had greater certainty about a three-year spending

review, we could proceed with it, but it would not be the right thing to do at this time. That said, the Scottish Government will not take just a short-term view on the budget; we will consider the long-term matters.

The publication of a spending review does not necessarily have to wait until the budget process. It could, in theory, be delivered at any point and the committee could have the opportunity to consider a separate scrutiny approach to it—if I was to publish a spending review at any point other than as part of the budget process. However, that is a point of accuracy and technical correctness; I do not want to lead you down that road. I want to be clear to the committee that my thinking is that the publication of a three-year spending review would be unwise at this time, so I am working to a one-year budget. I am sure that everyone agrees that that is the reasonable thing to do in the circumstances.

The Convener: That is helpful. We have to be absolutely clear that that is now the proposal, because it is a step beyond where we were an hour ago. Your proposals this year will not include a three-year spending review.

Derek Mackay: That is correct, convener. I hope that that assists members in understanding that I am not asking them to scrutinise a three-year spending review, because I will not publish one. I will propose a one-year budget.

The Convener: Absolutely. That is what we will focus on when we come to the budget timetable, which is helpful.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): Good morning, cabinet secretary. This is certainly one holy mess that the Conservative Government has got us into, and you are doing well in trying to outline to the committee your plans for taking forward our plans to reform how we scrutinise Scottish Government budget spending proposals.

In your discussion with the chancellor this morning after his reappearance, did he give any indication whether in his autumn statement there will be plans or provisions to make adjustments because of the situation with the EU? The public perception during the debate was that suddenly all the funding that came from the EU would be maintained in spending from the UK. It is probably too early to say this, but has the chancellor given you any indication that the British public can be absolutely clear about the UK's position in respect of budgets? For example, can they expect £350 million a week for the national health service? Has the chancellor knocked that idea on the head, or is it still doing the rounds?

Derek Mackay: First of all, I do not think that even the chancellor is able to say that he will

make the autumn statement; he pointed out to me that it could be either him or his successor. As a result, he can speak only from his perspective and the intelligence that he has from the UK Government. However, he has already said publicly—and this will come as no surprise, considering what he said during the European referendum—that he expects taxes to go up and spending to go down. He also prefaced that by saying that he thought that the UK would be poorer as a result of the vote.

Of course, the chancellor also wants to try to give stability and continuity to the UK and to calm the markets, and he has a range of contingency plans in place with the Bank of England, should they be required. I suppose that there was an attempt at reassurance in all that, but he has made quite clear—and other people have concurred with this—the impact on tax and spend. The answer, therefore, is yes, he expects the vote to have an impact.

Some of what the chancellor said during and after the referendum might be subject to change. You referred to the £350 million for the NHS. I could add to that other positions that were taken, for example on immigration. It will transpire that much of what was said before the vote will have been totally inaccurate; I want to stay with the Parliament's parameters for language, but I think that many of the things that people were told during the referendum will turn out not to be true.

Unfortunately, what has turned out to be true is the economic impact. Neither we nor the chancellor knows the scale of the financial adjustment that we will have to wrestle with, but I raised the subject with him and asked whether it was reasonable to assume a significant shift in the autumn statement. Of course, as I have told the committee, this is an important material consideration in our thinking about our timetable and process. When I asked the chancellor whether it was reasonable to take the position that there would be an impact in the autumn statement, he concurred and said yes, there would be. It might not be a matter for that chancellor, but there will be a shift in public finances and tax policies as a consequence of the vote, so in that light, the approach that I am outlining is reasonable.

Does that answer your question, Mr Coffey?

Willie Coffey: Yes. It is interesting that we cannot find anyone who admits to having made the claim about all this extra funding and money being available to the NHS. However, I suppose that that was the nature of the debate during the referendum.

Do you plan to engage with the devolved Administrations on the respective impacts on, say, Wales and Northern Ireland? It is also quite clear

that, in its view, the Republic of Ireland will be considerably affected. Are you reaching out to those Administrations? I know that you are extremely busy doing what you have to do, but what kind of association are you planning to have with them?

Derek Mackay: The First Minister, the Cabinet Secretary for Culture, Europe and External Affairs, Fiona Hyslop, and other ministers are engaging with counterparts. Indeed, since taking office, I have engaged, both before and after the referendum, with finance minister equivalents in the devolved Administrations, as well as with the Chief Secretary to the Treasury and the chancellor. I plan to meet the Northern Ireland and Welsh finance ministers in July, and I have had the pleasure of meeting Ireland's Minister for Public Expenditure and Reform.

I have been engaging with the other devolved Administrations, including with the Irish finance minister. I look forward to on-going constructive engagement on our shared interests. As I said, a further meeting is scheduled later in July in Wales between the three devolved Administration finance ministers. They will of course want to protect their positions and I will certainly pursue Scotland's position and what is in our best interests, but there is a great deal of frustration about what has happened. I was engaging with devolved Administrations before the vote, because I wanted a good, strong relationship between us on finance.

10:30

Willie Coffey: Is our timetable, or the timetable that you suggest for us, broadly shared by the other devolved Administrations? I presume that they face the same situation as we face, so do they have the same kind of timetable for their scrutiny processes?

Derek Mackay: We sometimes wrestle with similar issues or positions in terms of how we engage with the UK Government, but we are completely different devolved Administrations with different tax and spend mechanisms, budget processes, parliamentary scrutiny and everything else. Although we have many issues in common, there is not really similarity in our approaches. I have not discussed with them their timetabling issues, but we certainly agree on a number of issues of principle.

James Kelly (Glasgow) (Lab): I have two questions. The cabinet secretary's letter notes the £3.5 billion of public spending cuts that are coming down the line. Obviously, you have correctly assessed that there will be a material impact of the leave vote. You also said that the budget is different in that it is not only a spending budget, because we also have to consider the implications

of tax. What is your policy intent on the tax-raising powers? Do you intend to adopt a tax-neutral approach, or to raise or reduce taxes?

Derek Mackay: We outlined in our manifesto what our tax position would be, and that is our current proposition, as it stands. As any Government would, we will have to look at all the budget issues, the spending pressures and the impact of the chancellor's autumn statement. However, as it stands, the manifesto that we were elected on is the one that we are aiming to deliver. That had a range of proposals on income tax and other measures.

James Kelly: Just to be clear, is the approach tax neutral, or will it put up taxes or reduce them?

Derek Mackay: It is as was stated in our manifesto. Members would benefit from the full briefings that I have had on the financial agreement between the Scottish and UK Governments vis-à-vis the fiscal framework so that there is a clear understanding of the impact of tax decisions by Scotland and the UK Government.

James Kelly: I am sorry—

Derek Mackay: On our spending power, we will have generated more income through our tax position.

James Kelly: I accept that you have to assess the impact of recent changes but, at present, is your policy intent to raise more money from taxes?

Derek Mackay: As it stands, the position is what we outlined in the manifesto—I suppose that it is now a prelude to the budget. We have a policy on income tax and on council tax and other positions which, through those decisions and what the UK Government said it intended to do at the time, would increase our spending power and provide more resources for public services. The issue is now incredibly complex because of the way that the fiscal framework operates. It is not as simple as saying that the Scottish Government raises taxes and therefore we have more income, because everything is now relative to what the UK Government does and the impact on the block grant adjustment. Therefore, the situation is more complex.

I am not trying to be unhelpful, but putting words into my mouth is not necessarily helpful in the context of accuracy. Our tax proposals will increase the spending power of the UK Government because of the position that we have outlined, based on what the UK Government said that it was going to do at the time, particularly on income tax thresholds and, separate from that, council tax.

Alistair Brown (Scottish Government): You meant the spending power of the Scottish Government.

Derek Mackay: Yes, of course—it is the spending power of the Scottish Government. For the avoidance of doubt, I am not trying to spend anyone else's money.

The Convener: We accept that correction.

James Kelly: Okay. I am clear about where you stand, cabinet secretary.

Secondly, I want to go back to Murdo Fraser's point about budget scrutiny and how a curtailed timetable would compromise the ability of this committee and other subject committees to scrutinise the budget. You will be continually running and updating your forecasting models. Would you be able to make available information on that work to the proposed working group, this committee and the subject committees to help to inform us ahead of publication of your spending plans?

Derek Mackay: It would not necessarily be helpful to put in the public domain forecasts that will have so many variables. That would create further uncertainty. We have to work to a programme, but I will consider further what information we could share with the committee.

If I am not publishing a draft budget, why would I publish a whole host of scenarios that would give a degree of credibility to forecasts that might turn out not to be accurate? I will consider in real time what I could share with the committee. I am trying to be helpful and transparent, but not in a way that sets hares running.

James Kelly: I accept that, and I would not propose that you publish any information that fuels uncertainty. However, it would be helpful to publish anything that would help to inform members and others who are involved in the budget process.

The Convener: That is a very important point from James Kelly—which was also highlighted in questions from Murdo Fraser and Adam Tomkins—about the level of information that would be made available to this committee and to the spending committees in the absence of a draft budget. We have not talked about the detail of the timescale, but that is an important point and I think that it will recur in the committee's discussions, so I want to underline it.

Ash Denham (Edinburgh Eastern) (SNP): It is clear that recent events are having immediate and—let us say—wide-ranging effects on the Scottish economy. Is the Scottish Government discussing options to stimulate investment? Could money be found to allocate to that?

Derek Mackay: First, I emphasise that cabinet secretaries across the Government are engaging with key stakeholders in all sectors to understand the impact and take on board sensitivities and

intelligence—not just in the business community, but more widely. The First Minister has outlined her position on the creation of an expert panel in relation to the EU. Beyond that, there were ministerial meetings hours after the result and there was an emergency Scottish Cabinet meeting on Saturday. We have been tasked with engaging with stakeholders to assess the position, to support them and provide continuity, to convey the Government's message, to hear from all sectors and to seize any opportunities that might exist. For example, there have been inquiries from people who are interested in operating from Scotland in the event that Scotland could continue to keep its place in the EU while the rest of the UK takes a different decision.

With regard to budget allocations for that work, cabinet secretaries and departments would be expected to get on with it within existing resources because our budget for this financial year is set. Civil servants and Government will adapt to circumstances, and we will all adapt to the opportunities that arise. I would consider any request for additional resources or variations, but I would expect departments to find that money within existing resources and to get on with the kind of work that Ash Denham has suggested.

Neil Bibby (West Scotland) (Lab): I want to ask about the impact of a delayed budget on the wider public sector. There has been discussion of timescales, looking to the end of the process.

The cabinet secretary will know, as a former council leader, that councils legally need to set their budgets around 10 March. Last year, because of a delayed budget, a number of alterations and corrections were made to local authority budgets right up until a week before that date. There will obviously be concern in that respect.

Last year, there was also concern among colleges, which get their budgets through the Scottish Further and Higher Education Funding Council. I am aware, too, that, historically, health boards have set their budgets around June. Their contribution to the health and social care budgets cannot be finalised until they have set their own budgets.

What action can you take to give public sector organisations such as local authorities proper time to plan for the financial year ahead? What can you do—by providing information or otherwise—to allow them to do their jobs properly?

Derek Mackay: Mr Bibby helpfully answered part of his own question when, as well as saying that timing is important, he mentioned that alterations and corrections are a feature of the process. If we were to rush ahead with setting a budget prematurely, knowing everything that we

know now and assessing what we do not know, an immense number of corrections and adjustments would have to be made that would have a material impact on the final outcome.

It is my judgment that getting an accurate and credible budget is the right thing—and the most prudent and effective thing—to do. Of course other delivery partners and stakeholders will want certainty from figures and a direction of travel. In a perfect world, I would like to be able to deliver a three-year spending review to give that certainty. There are strong messages to be sent not just on the direction of travel, but on public service reform and transformation, to which we will have to return. It is a case of providing stability and clarity. We need to produce a credible budget—not one that needs to be corrected through a series of adjustments because we acted too soon and there was a seismic shift in the financial situation.

I hear and accept the point that Mr Bibby makes, which applies particularly to local authorities and other organisations that depend on our spending decisions. If I can provide clarity at an early stage, I will try to do that. Of course I want to work in partnership with local authorities and others, but I know that they, too, would appreciate accuracy.

That brings me back to the point that Adam Tomkins made earlier about extending the process at the other end. I am mindful of the fact that local authorities and other organisations must debate, plan for and set their budgets, and that they will want to have a good amount of time to do so before the start of the new financial year. The burden that we have collectively is not just to make the timescales work for absolutely everyone, but to deliver good, competent government and sound financial decision making in the light of all those factors.

As far as the wider public sector is concerned, we are all evaluating the present situation and will have to deal with the level of uncertainty. We will make clear to our organisations and to partners and stakeholders what we can do. I say again that its being just a one-year budget does not mean that we should not take a long-term approach to the transformation that must take place in any event.

The Convener: Next is Ivan McKee, after which we will start to wind up. We are making good time.

Ivan McKee (Glasgow Provan) (SNP): There are two areas that I want to touch on: spend and tax. I will ask about spend first.

We are obviously in a period of uncertainty. It is more likely than not that there will be pressure on the public sector spend. There are in our predecessor committee's legacy paper a couple of related issues on which I would like to hear your

views. One of them is outcomes-based spending. It was mentioned that big-spend departments need a better understanding of the relationship between the money that they have spent and the outcomes that they delivered with that.

The second related issue is preventive investment and the need to understand how we can spend money up front to deliver things at lower cost and reduce the effects of lack of up-front investment in areas that were identified by the Christie commission. In March this year, a letter was sent to your predecessor on preventive spend, on which a number of points were raised. Is that on your agenda? Will we get a response to that letter?

10:45

Derek Mackay: Those are helpful questions. In terms of the outcomes-based approach, the Government has placed a great deal of weight on the national performance framework and the outcomes that we would like to achieve, and on calibrating the Government towards those priorities. We are looking closely at that work and how we report it, through Scotland performs. People have that in mind, so we will continue to focus on that. Also, when I look ahead to the budget, I will look at how departments are aligning their funding with the outcomes that we want to achieve. The committee will want to scrutinise that, too.

I think that a Labour member asked a question about this in the chamber when I was not there to answer it. There was a round-table approach taken to focusing on what the outcomes for the country should be. I want to continue with a cross-party approach to establish what the national outcomes should continue to be, with a clear focus on that and on aligning resources to priorities. Rather than it being about what a department wants to do, it is about what we are trying to achieve. There is a great deal of work to be done on that, especially when we are going through a budget exercise. That provides an opportunity to focus the mind.

That work will continue, as will our approach to prevention. I was on the Finance Committee when it looked at prevention, and there is a great deal of political buy-in and consensus around the need to make the right spending decisions in order to have the right preventative approach. We want to continue with that, and I can list a number of manifesto commitments or policies that we have adopted that fit in nicely with that thinking. Nevertheless, there is more work to be done on prevention.

I am not aware of any outstanding correspondence on the subject, but if there is any,

I am happy to get back to you in writing on the issue that the member has raised.

Ivan McKee: My second point was on taxation—specifically, the issue of additional-rate tax. The matter was discussed during the election campaign and some work was done on the behavioural impacts of that tax. It is a complicated area because of the interplay between tax, dividends, capital gains, people's ability to move tax base at that level and so on. There are a lot of layers within that, and there is no single answer for all the people in that bracket—they may all have completely different circumstances. Has any thought been given to doing some more detailed work to further understand the potential behaviour or impacts among different segments within what may be called that additional-rate tax bracket?

Derek Mackay: Again, that is an interesting question. A number of committee members will take a completely different approach to what we should do with that tax lever, but our manifesto commitment was clear. We want to understand tax behaviours and what certainty we could have of income generation if a particular tax proposition was taken forward. Therefore, we will ask the Council of Economic Advisers to consider the matter and I am happy to return to the committee with whatever advice we ultimately receive on what a proposition may achieve in view of tax behaviours. Members will recall that, throughout the Scottish Parliament election, we said that it would be pointless to raise a tax if it did not generate income. That would be counterproductive. We are happy to explore the thinking around that issue and return to the committee with whatever intelligence we have.

The Convener: That would be useful to us. Alex Johnstone has a question.

Alex Johnstone: It is a brief question on tax behaviour. In your letter to the convener of 23 June, you talk about

“protecting future revenues which may under some circumstances be eroded by tax avoiding behaviours.”

What powers do you have, or what actions do you envisage taking, to influence tax-avoiding behaviour?

Derek Mackay: We would look at that. The bottom line is that people should pay their taxes, and we will work hard to pursue people to get them to pay what they are due to pay. The culture in the devolved taxes that we have seems to be quite effective. Revenue Scotland is doing a very good job of pursuing people and receiving the income that is due from the taxes that have been devolved to us under the Scotland Act 2012.

Of course we will be proactive in addressing tax avoidance and on compliance and enforcement.

My letter referred to a matter that we should consider jointly. The UK Government deals with a totally different budget process—it announces the budget and all the scrutiny follows. We have a draft budget, which we scrutinise and vote on. As well as having all the enforcement that I spoke about and creating a culture that expects compliance, we must consider whether a future process should have a mechanism for the Government to outline our tax position securely and safely and to address bad tax behaviour by people who avoid tax because they knew what we were going to do. I want how we deal with that to be considered.

We are going from a process in which the Parliament scrutinises how we spend money to one in which the Parliament generates money through tax decisions and spends money. We have to think jointly about how we protect the taxation position in Scotland in a way that does not encourage bad behaviour.

Alex Johnstone: You describe a situation in which the chancellor south of the border can sometimes surprise people with taxes, whereas you feel that you will be flagging up tax changes in advance. Do you want the power to surprise people with tax changes?

Derek Mackay: Mr Johnstone is far too cynical about my intentions. I am sure that we can all agree that we will need flexibility to generate tax, with proper transparency and accountability. As the member knows, we already go to the chamber with redacted papers on the tax rate that we might set. All that I am saying is that we might want to look at the overall process, although not necessarily in this transition year, as I accept that time is too tight for that. As part of our joint work, we should look at our model, which is not perfect, and consider what to adapt. We should not create a system that encourages bad tax behaviours by which people escape from paying what they should pay. We should take that issue seriously. I am talking not about surprises but about prudent management of public finances and a degree of equity and fairness for all.

The Convener: I will raise two points to which I would like a response. First, paragraph 88 of the fiscal framework agreement is required more than ever. It says:

“The UK and Scottish governments have agreed that appropriate and reciprocal information-sharing arrangements will be put in place to enable both governments (as well as the OBR and the Scottish Fiscal Commission) to undertake their respective responsibilities.”

Given the circumstances that we are in, I ask whether those arrangements are in place. If they are not, how quickly can they be put in place?

Derek Mackay: I will defer to Alistair Brown for the more technical answer. I understand that some of the detail is still under discussion, because we are working through some issues.

Alistair Brown: The agreement in principle is as read out by the convener. It is agreed that there will be information-sharing arrangements and we are working on the detail with HM Revenue and Customs and the Department for Work and Pensions. In addition, the Scottish Fiscal Commission is discussing with the Office for Budget Responsibility what information the tax forecasters need to share.

The Convener: Given the circumstances that we are in, a degree of urgency now applies—that is certainly the case on our side, and I hope that it is so on the UK side, too.

Alistair Brown: We are taking the discussions forward as quickly as we can. A system of governance is in place so that, if for any reason we do not make the progress that we expect to make, we can refer the matter upwards.

The Convener: I repeat that a degree of urgency is required.

I have a second point to put to the cabinet secretary. You have been reading up for your position, as have I. I have been struck by the principles that the financial issues advisory group set at the outset of devolution, which show why we have the arrangement that we have. I will bore members for two seconds with the FIAG principles, which were

“• providing opportunities for the Parliament to comment on expenditure priorities and to influence the Executive’s preparation of Budgets;

• providing the opportunity for the public to have the opportunity to put their views to subject committees, as well as individual MSPs at an early stage in the process;

• providing sufficient time for the Parliament to consider and debate proposals fully;

• providing balance between the requirement for Parliamentary scrutiny and the needs of the Executive;

• providing some degree of certainty so that on-going activities can continue without prolonged uncertainty;

• providing an efficient mechanism to deliver motions to be debated by the Parliament;

• providing a meaningful role for subject and Finance Committees;

• delivering timeous decisions on tax varying power and the Budget (as well as the interim spending approval and budget amendments);

• engaging all MSPs;

• facilitating the Executive’s formulation of proposals; and

• providing for rights of amendment.”

It seems to me that, although we can debate how this happens, those are sound principles that

underpin what the Parliament is about, and many of them have been expressed in one way or another in this meeting. I am keen to know whether the Scottish Government still accepts those principles and whether you agree that they should underpin the work that we will do in co-designing the process this year and in future years.

Derek Mackay: Broadly, yes, as long as we all understand that those principles were created at and relate to a time when the Parliament was just a spending Parliament. That is a pretty good starting position to embark on our joint work. I am not abandoning those principles; I am just saying that we have to adapt in light of the fact that the Parliament has matured and our tax powers have changed, and our ability to adapt to circumstances will also have to be taken into account.

The Convener: I certainly hope that, as our clerks enter into discussion with you, those things will underpin how we take matters forward, and I think that the committee has expressed today what is important to it.

I thank you very much for giving evidence. The session has been lengthy but very informative.

Scottish Fiscal Commission (Temporary Appointment)

10:56

The Convener: Item 2 is a temporary appointment to the Scottish Fiscal Commission.

We have a copy of the cabinet secretary's letter regarding the resignation of Andrew Hughes Hallett from the Scottish Fiscal Commission. I have known Andrew Hughes Hallett for a long time. On behalf of the committee, I put on record our appreciation of his work and the significant contribution that he has made to the commission's work and to Scotland in general, and I pass on our best wishes to him.

You wrote to us about the matter, cabinet secretary, and I understand that the letter has been circulated. If you would like to make some opening comments, we would like you to do so, but the matter appears clear. You have expressed to us the view that the committee could and should meet your nominee early in September. It seems to be reasonable to accept the need to get somebody into post now. Would you like to say a word or two about that?

Derek Mackay: Thank you, convener. I concur with your words on Andrew Hughes Hallett.

I am grateful for the opportunity to give evidence to the committee on an interim appointment to the Scottish Fiscal Commission, and I record my thanks to it for its understanding and willingness to consider the issue at such short notice.

I wrote to the committee last week to inform it that Professor Andrew Hughes Hallett had tendered his resignation from the Scottish Fiscal Commission. I am very grateful to him for his service to the commission and for the valuable contribution that he has made to its work over the past two years.

My immediate priority was and is to ensure that the commission has sufficient capacity to discharge its functions in relation to the 2017-18 Scottish budget. Having discussed that issue with the chair of the commission, Lady Susan Rice, I decided to make an interim appointment to the non-statutory commission at the earliest opportunity. I wrote to the committee again yesterday to notify it of my decision to appoint Professor Charles Nolan of the University of Glasgow to serve as a member of the non-statutory commission up to 30 March 2017. Professor Nolan will bring a wealth of relevant economic experience to the commission, having held posts at the Bank of England and several academic institutions.

I intend to commence the process of appointing two new members to the commission with effect from 1 April 2017, when it is due to be established as a non-ministerial department and office-holder in the Scottish Administration. In accordance with the Scottish Fiscal Commission Act 2016, that process will be regulated by the Commissioner for Ethical Standards in Public Life in Scotland. Although I will make appointments, they will be subject to approval by the Scottish Parliament.

I look forward to answering any questions that the committee may have.

The Convener: Excellent. I declare an interest as somebody who is employed by the University of Glasgow in a minor capacity.

As there are no comments, the committee approves the appointment, and we will look forward to meeting Professor Nolan after the summer. Is that acceptable?

Members indicated agreement.

The Convener: Thank you very much, cabinet secretary. It is good of you to have come to the meeting. I thank your officials. I am sure that we will see you again before too long.

We will move into private session.

10:59

Meeting continued in private until 11:39.

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.

Published in Edinburgh by the Scottish Parliamentary Corporate Body, the Scottish Parliament, Edinburgh, EH99 1SP

All documents are available on
the Scottish Parliament website at:

www.parliament.scot

Information on non-endorsed print suppliers
is available here:

www.parliament.scot/documents

For information on the Scottish Parliament contact
Public Information on:

Telephone: 0131 348 5000

Textphone: 0800 092 7100

Email: sp.info@parliament.scot



The Scottish Parliament
Pàrlamaid na h-Alba