OFFICIAL REPORT
AITHISG OIFIGEIL

Finance and Constitution Committee

Monday 15 January 2018

Session 5

The Scottish Parliament
Pàrlamaid na h-Alba

Monday 15 January 2018

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FINANCE AND CONSTITUTION COMMITTEE
2nd Meeting 2018, Session 5

CONVENER

*Bruce Crawford (Stirling) (SNP)

DEPUTY CONVENER

*Adam Tomkins (Glasgow) (Con)

COMMITTEE MEMBERS

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

*attended

THE FOLLOWING ALSO PARTICIPATED:

Derek Mackay (Cabinet Secretary for Finance and the Constitution)
Scott Mackay (Scottish Government)
John Nicholson (Scottish Government)
Graham Owenson (Scottish Government)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

Town House, Aberdeen

Scottish Parliament

Finance and Constitution Committee

Monday 15 January 2018

[The Convener opened the meeting at 11:48]

Draft Budget 2018-19

The Convener (Bruce Crawford): Good morning, colleagues, and welcome to the second meeting in 2018 of the Finance and Constitution Committee. We are delighted to be in Aberdeen, and I thank Aberdeen City Council in particular for hosting the meeting.

Agenda item 1 is to continue the committee's examination of the Scottish Government's draft budget for 2018-19. Our workshop sessions this morning sought to explore the impact of Brexit on the Government's local communities spending decision. They were also an opportunity for people from the north-east to tell us about not just issues that matter to them in regard to Brexit and the Scottish budget but wider concerns.

We covered a significant amount of ground this morning, and there was some great feedback. One theme that came through to me in the sessions that I attended was having more control over local decision making and spending. That seemed to be a theme in almost all the discussions that I was able to take part in.

There were MSP representatives in each of the five workshops. Obviously, MSPs will be able to contribute to the discussions. We will now get feedback from the individual MSPs who were at each table on the issues that were raised in the working groups. Willie Coffey will provide the feedback from table 1. Over to you, Willie.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): Thanks very much, Bruce. I will share with the committee some thoughts of the contributors around our table.

As might be expected, we started off by talking about fishing. Stephen Paterson from Peterhead Port Authority told us that there has basically been 10 years of steady growth in the fishing industry, it has around £200 million-worth of value, and that value has doubled in the past 10 years. The industry up here is now the biggest processor in the United Kingdom, of course, which supports 6,000-odd jobs. As might be imagined, the processing sector very much relies on foreign labour, and the salaries in the sector are pretty good.

Any concerns about continuing and sustaining employment in the sector would probably be shared by colleagues around the table. A training programme is being invested in to try to attract more younger people in the north-east to take an interest in the sector. Some good work is therefore going on in the area.

The potential impact of Brexit on access to fishing grounds was also mentioned. There was concern about anything happening to upset and disrupt the careful balance of fishing volumes and quotas that we have achieved over a number of years, for example.

Susan Coull from NHS Grampian contributed to the discussion about accessing staff. As might be imagined, there is a particular problem with recruitment in the north-east. Susan Coull mentioned the nursing sector in particular. Property costs, for example, are higher here, but wages tend to be the same throughout the national health service. She told us that people found difficulties recruiting here. It is interesting that she remarked that there had been success in recruiting staff to the NHS from the oil and gas sector. She mentioned that that recruitment was not always entirely successful, but there was certainly an opportunity to do that.

Dave Black from the Grampian Regional Equality Council told us that there has been a 34 per cent decrease in national insurance registrations in the area, which relates mainly to people coming from Poland and Romania. It remains to be seen whether that will go on to have a negative impact on local economies. There does not appear to be a direct and immediate impact, but that organisation is keeping an eye on the issue, as there may be an impact.

Joyce Duncan from the Aberdeen Council of Voluntary Organisations gave us useful feedback. She said that the value of the third sector in the Aberdeen city area is about £350 million and that it supports 10,000 staff and, incredibly, 70,000 volunteers, 25 per cent of whom are European. That is an astounding figure. She said—I have written it down exactly, and Adam Tomkins will remember this—that she feels as though they are

"sitting on the edge of a precipice".

That is a concern for her. In common with many other groups, the Aberdeen Council of Voluntary Organisations is looking for more multiyear commissions rather than annual commissioning, which we tend to see in the third sector. We discussed whether there might be an on-going message for us that, in our budgeting process, we should move away from single-year to three-year processes, as that would be helpful for the voluntary sector.

We spoke briefly about the impact on the oil and gas sector. Jamie Coventry from Aberdeen City Council said that the best that can be said is that, although the sector is not upturning, it is probably stabilising. However, he does not anticipate any huge impact on the industry from Brexit per se. He pointed us to the work that is being done in Norway on decommissioning. Norway seems to be a wee bit ahead of us on the development and application of technology for that.

We had a wee chat about city deals. It was interesting to hear that some of the hopes and aspirations of local people around the city deals are shared with people in my area of Scotland. The components are similar to the ones that we are looking at in Ayrshire. The focus in my area is on life sciences, tourism and food and drink, and that seems to be shared in the north-east. That was a bit of a surprise to me, because I expected there to be more of a focus on the fishing sector and perhaps even a residual focus on the oil and gas sector.

About 20,000 people are employed in tourism in Aberdeen and Aberdeenshire. We had a bit of discussion about business hotel occupancy rates, which are down a wee bit. However, I heard a contributor at another table say that they are happy with the occupancy levels, particularly in the city at the moment. There is a mixed message there from what I picked up, although others might have a more concise message to share.

We then turned our attention to tax and considered whether the changes to land and buildings transaction tax and income tax are having an impact on the local economy. It is fair to say that, when we tried to find out whether people are making decisions based on the changes to land and buildings transaction tax or whether it is the impact from the oil and gas sector that is having the greatest effect on higher-value properties, the discussion was inconclusive.

On gross domestic product, we asked what both Governments can do to help the local economy to develop. We heard that stability of population or the ability to grow the population is crucial. One contributor gave us the stark figure that 39 per cent of babies born in the area come from non-UK mothers. I hope that I have got that figure right—I see Adam Tomkins nodding—but it is quite astounding. Most of the people who are living here are now second-generation Europeans and see themselves as new Scots, if we want to use that terminology.

Finally, we discussed what people would like us to ask the cabinet secretary later today on their behalf. Joyce Duncan wanted to know what percentage of funding the Scottish Government pushes towards early intervention rather than the acute side, and she wanted us to ask the cabinet secretary to try to achieve more of a balance in that regard.

One of the other contributors said that people in the area need a sense of security and to feel part of the community. There is some uncertainty about what the future might hold.

We also need to recognise the huge opportunity in fishing. The industry has been with us for 300 to 400 years—probably longer—and there are huge opportunities there, but we have to get the balance right. Post-Brexit, we must not upset the industry in such a way that it ultimately causes damage to the sector.

The next comment was to ask us to do what we can to protect businesses. There is no real connection between the value of a property that a business operates in through the business rating scheme and the value of the business. It would be useful if the cabinet secretary recognised something in that area.

On oil and gas, we are asked to maximise the economic recovery potential and get as much as we can out of the industry for the next generation.

The Convener: Thank you for that comprehensive feedback; it is very useful.

Does anyone want to add anything before we move on?

12:00

Adam Tomkins (Glasgow) (Con): One thing that Willie Coffey said was alluded to strongly by people at our table. In contrast to what happens in other economies, such as the German economy, the UK does not support small and medium-sized enterprises anything like robustly enough. There is a big plea for us to think about small and medium-sized businesses much more than we do, particularly in terms of banking and banking arrangements. That was quite a strong theme.

The Convener: James, do you want to feed back from your workshop?

James Kelly (Glasgow) (Lab): We had a helpful and informative discussion with representatives from oil and gas, culture, transport, aviation and fisheries. The discussion was ably facilitated by my colleague Patrick Harvie.

Four key strands came out of the discussion. The first was about the opportunities and threats of Brexit. It was felt that fisheries were a potential opportunity, particularly to grow the current home market as 40 per cent of the catch is sold at home and 60 per cent goes to the European Union. It is felt that there is an opportunity to reconfigure and grow the home end of the market. If we are to meet that opportunity, we need to address some challenges around skills and greater automation. However, some of the members of the group were concerned about these challenges as well as the uncertainty that Brexit has created and the negative impact that it is starting to have and will continue to have in the north east. A particular concern is the lack of clarity over the type of Brexit and the plan for Brexit, but I will say more about that in a minute.

As an example, the second area that the group looked at was funding. There were some good examples of practical funding that is in place, such as funding for hydrogen buses in the transport sector, and, in the culture sector, funding for local festivals, some of which attract 30 per cent EU grant funding. There is no clarity around how the gap in funding for such schemes would be addressed. The group expressed that as a concern for local industry and the community.

We moved on to discuss the shape of the Brexit that people would like to see. The key message that came across is that people are looking for minimum change. They want the same access to the markets that they currently have. They do not want there to be a lot of change to trade rules or new barriers to trade. There is a key factor in ensuring that we still have access to the EU labour market.

In the final part of the discussion we looked at the implications of Brexit for the north-east and the actions that the discussion group was looking for from politicians and Governments. One of the key themes throughout the discussion was the skills shortage, particularly in the lower-skilled part of the economy. Examples were given of how jobs in that part of the economy were being filled by EU nationals, and there was concern that Brexit may mean that we lose some of that skills base.

There was also acknowledgement that more needed to be done to support young people to get into employment in all sectors, and there were worries about the potential impact of Brexit on local housing. If, as some people in the group claimed, Brexit has a detrimental impact on the local economy, it might push housing costs up, which could affect everyone and not just young people.

The other issue that came across strongly was that greater emphasis needs to be put on local government and local solutions in the north-east. People feel frustrated that not enough of the money that is raised in taxation locally comes back to the north-east. In order to mitigate the potential negative aspects of Brexit, local government needs more local funding and to be responsible for more local solutions.

The overall message from the group was frustration about the uncertainty surrounding Brexit. People are not clear what the UK and Scottish Governments are doing to address that, and they want more clarity and practical action. They want ministers—including Scottish Government ministers—to engage one to one with key players in each sector, to assess what the issues are around Brexit and to begin to come up with solutions. The key thing that came across was that uncertainty is creating a lot of anxiety here in the north-east.

The Convener: Thank you for that comprehensive feedback, James. Patrick, would you like to add anything to that?

Patrick Harvie (Glasgow) (Green): No, other than to emphasise James Kelly's last point. Many people in our group expected the group's discussion not to fall into a vacuum. Such discussions need to be taken on by Parliament and Government, which, despite the uncertainty, must engage with different sectors about the need for planning. This was the first time that some members of the group had discussed these issues with each other. There was a feeling that people should not have to wait for politicians and Government and that there should be an opportunity for discussions to take place between the organisations and individuals affected by Brexit. As James Kelly said, the issue of where the discussions go from here came out strongly in the discussion.

The Convener: Ivan McKee will report back on workshop 3.

Ivan McKee (Glasgow Provan) (SNP): Murdo Fraser and I were in a group that included representatives from Aberdeen and Grampian Chamber of Commerce, North East Scotland College, the University of Aberdeen and Aberdeen City Council. We had a wide-ranging discussion—given the make-up of the group, we focused on business and the education and skills sector, and the interplay between the two.

Brexit was the biggest subject of discussion and quite a few points were made in that regard. There was a bit of discussion about labour shortage and whether we will be able to access EU labour as easily post-Brexit as we do at the moment. We discussed the skills gap and the important role that colleges play in labour inclusion: upskilling people who are furthest from the labour market and bringing them into the labour market in order to fill a lot of jobs in the future.

There was a lot of discussion about EU students and the uncertainty in that regard, particularly given the university's huge reliance on foreign students, including those from the EU. That is not just about what they bring to the university by being there or what they spend in the local economy; they also add hugely to the attractiveness of the university. When it is trying to market itself globally, it is important that it has that breadth of students on the campus. The uncertainty about future funding solutions for EU students was a big part of the discussion.

We also talked about EU workers, and the point was made strongly that the issue is not just about low-skilled jobs. Many EU workers fill jobs in the NHS, and the food and drink sector was mentioned—brewing skills from Germany was an example that came up. There is a range of EU workers right across the skills spectrum, which represents a potential risk post-Brexit. In addition, the point was made that it is not just a question of the UK Government saying at some point, "It's okay for you to stay." It is a two-way street. If EU workers who are here and people who are planning to come and bring those skills get the wrong signals, they will potentially vote with their feet. We need to understand that those skilled people have options as to where else they can go.

On research, there is a big fear that the partnerships that the university has across Europe could be severely disrupted with, again, people not wanting to come here and do research. If it is made more difficult for institutions to co-operate with others across Europe, there will also be an impact on business. If people do not want to come here for conferences or visits, it will have an impact on the hospitality sector, et cetera.

There are a lot of uncertainties about funding streams, structural funding and EU student funding, which I have already mentioned.

Lastly on Brexit, there was some discussion about trade links and the potential for Scottish Government agencies such as Scottish Development International not just to sell Scotland as a place to do business but to be more focused on what is happening locally in the north-east, working with organisations here so that, when they make international links, they can connect back and maximise the leverage. That will be important post-Brexit both to protect the foreign direct investment that is already here and to expand trade into non-EU countries. We need to consider how that will play out and what work needs to be done to protect that and move it forward.

The second big area that we talked about was local issues, and particularly local control. There was a feeling that it would be beneficial if there was more local control of rates. A tourist tax was mentioned, as was the ability to have the full virtuous circle, if you like, with local decisions being made on taxation and the money staying locally and being used to drive the local economy. There was a strong desire for that local control.

There was also quite a bit of discussion about the way that different pots of money come into different organisations in the north-east. There is perhaps a need for better co-ordination between those organisations so that the money can be focused in such a way as to get the benefit, build the concept of the place and ensure that everything is linked up. That fed back into the discussion that we had earlier about the university and how we can make the place more attractive for people who want to come and study here.

There was some discussion about how the city deals have been structured, the projects that have been included and whether they have been maximised to deliver what it is felt is essential to generate the biggest benefit for the area.

Finally, there was some discussion, particularly from the chamber of commerce, about rates. The chamber of commerce understands that the budget is undergoing discussion and that the draft budget is not the final budget, but it was very keen to make the point that the existing reliefs should be protected through that process. It also made the point that there are issues about manufacturing—fish processing businesses were given as an example—where rates can be an issue. There is some concern that some of those businesses could relocate if that was seen to be problematic.

The Convener: Thank you, Ivan. Do you have anything to add, Murdo?

Murdo Fraser (Mid Scotland and Fife) (Con): That is a very fair summary of the issues by Ivan McKee. I will just add a couple of things from my perspective. In relation to the post-Brexit scenario, one point was about the ability of Scottish businesses in particular to extend their reach internationally and whether the infrastructure is there for them to do that. There was a bit of a sense that more work needs to be done on that area in particular.

On the local agenda, I was very struck by the degree of consensus on the idea that more power could be devolved locally. Things such as the enterprise spend, the skills spend, and even aspects of the welfare spend could be controlled locally in a more joined-up manner, balanced by more tax-collecting and tax-varying powers at the local level. It is clear that there is quite a lot of ambition around that in the north-east.

The Convener: Thank you, Murdo. Emma Harper will report back on workshop 4.

Emma Harper (South Scotland) (SNP): At our table, Alexander Burnett and I had people from the Scottish Fishermen's Federation, NFU Scotland, the presbytery of Aberdeen, and the University of Aberdeen. The themes for discussion were sectoral impact, employment and labour market opportunities and funding, and community impact. We explored each area with each person. One of the emerging issues was the Scottish Government's intention with regard to recruiting more Scottish students and whether the Scottish Government will have a position on engaging European students.

Right now, 17.8 per cent of students at the University of Aberdeen are from other parts of Europe. Could the Government's future position be to widen access so that more Scottish students get into university, with a focus on inclusive growth and kids from disadvantaged backgrounds? The ask is to take away any uncertainty about student numbers in the future.

12:15

We looked at sectoral impact—as far as fishing goes, Fraserburgh, Peterhead and Lerwick are the biggest ports, with 65 per cent of the fish caught by the Scottish fleet. Only 11 per cent of our fish is caught in European waters so we have the ability to look at opportunities for fishing in the future when negotiating how we proceed in relation to the common fisheries policy. The ask is for a nine-month bridge so that negotiations can proceed.

There is certainly an opportunity for a nuanced immigration policy that would work for students at the universities. That is an ask for NFU Scotland because of previous seasonal agricultural workers schemes. The NFU Scotland representative, Lorna Paterson, is interested in the Government helping to make sure that people are aware of where their workforce comes from. There are issues with the workforce in dairy farming and in abattoirs, and with fruit and veg and berry pickers. It would be interesting to explore that and the Government needs to get more messages out about the purpose of subsidies. Farmers do not want subsidies but they are helping to support the industry as we look at the future—360,000 jobs have been created in farming and, for every £1 that is invested, about £5.30 comes back into the economy, so there is a huge opportunity for labour and trade and there are issues around the workforce.

The Government could do better in promoting education for agriculture, and even for fishing and construction. There is a call for careers guidance at junior level at school, to promote opportunities for developing the youth workforce in rural jobs, including fishing.

We spoke about an ethical approach to the labour workforce and maybe making an assessment to explore what jobs are needed across the farming sector. Again, a nuanced immigration policy is quite important. One proposal is to have money from the Government to develop more businesses and smaller businesses.

The situation with regard to research and innovation is interesting, because our research is international. Many of our teams are international—that involves not only European teams but the possibility of exploring opportunities for research collaborations, including financial support, with America and China.

Certainly, we need further research and delivery in the area of farming. The issue of blight-free potatoes was raised, as was the need to be better about sharing good research. It was suggested that research and development tax credits could be more enabling.

We spoke a little bit about research into electronic research and the fact that electronic data and transfer is pretty sectoral. That is an issue with regard to the tagging of livestock so that we can trace better in the interests of disease management and livestock management.

One of the funding asks was a call for the Scottish Fishing Federation to have some proper financial support for the stock assessment of fish. As we leave the EU, that is something that would be supported. The issue of good feedback for or about Marine Scotland was raised. Norway provides money for research and stock assessment in the issue of sustainability.

Additionally, there was a call for the Scottish Government to support further investment in the manufacturing of local equipment so that local farmers can buy Scottish goods. Currently, a lot of the equipment comes from Europe.

On the issue of cultural community impact, the presbytery of Aberdeen was keen that we maintain our cultural support for an engagement with our European neighbours. The point was made that arts and culture require active investment. Activity in those areas does not happen simply as a result of economic stability or improvement; we need to actively fund our arts and culture. People want to ensure that we maintain our European connections and retain our focus on and engagement with our European neighbours, and remain open to them.

The Convener: Does Alexander Burnett have anything to add?

Alexander Burnett (Aberdeenshire West) (Con): I think that that was a good summary of what was a thorough discussion. I would simply repeat and reinforce the point that was made about it being important not only to maintain but increase our research and development funding, and the more important point about the need to examine what barriers there are to turning research into business. A number of participants talked about the fact that we seem to be very good at doing research but less good at turning that into business ideas locally, which means that a lot of ideas go abroad after being researched and developed in Scotland. We need to think about what opportunities there are for the Scottish Government to encourage such investment.

The Convener: Neil Bibby will provide feedback on workshop 5.

Neil Bibby (West Scotland) (Lab): Ash Denham and I met representatives from the higher education, hospitality, tourism and construction sectors as well as representatives from the areas of local government and economic development.

First, we considered the challenges that face various sectors as a result of Brexit. The first point that was made concerns the fact that, although the economy of the north-east of Scotland is different from that of the rest of Scotland due to the oil and gas industry, there is a need to support the other industries in the area as well as that one.

The first area that we considered was higher education. Brexit was described as a potential catastrophe and we heard that the sector is being affected by the uncertainty around that issue. One of the key points that were made concerned reputational damage. International work—not only across the EU but work that is being done in China and the USA—has already been affected by the idea that the United Kingdom is drawing inwards. The higher education sector has recently found it impossible to get higher-level researchers to come to the area. Germany is seeing the benefit of that with regard to its ability to draw in not only students but staff. Because of the uncertainty, universities in the area are unable to answer the questions about migration that staff and potential students have. The Government has made statements on research funding, but there is a sense that it is still not fully aware of the picture going forward.

On energy, there was a feeling that companies want to invest in Britain and Scotland, but they will not do so until they know where they stand. There has been more positive investment recently in the oil and gas sector as well as an increase in the oil price, but there was a feeling that oil and gas will not last for ever and that, because of that, there is a need to maintain strong leadership in the move to a low-carbon economy.

On fisheries, there might be increased landings as a result of leaving the EU, but more investment in the processing sector will be needed to deal with that. A lot of workers in that sector are EU nationals.

There was an interesting viewpoint from the tourism sector, for which uncertainty is less of an issue. In the short term, the weaker pound has stimulated more growth in the tourism sector, but the labour supply of EU nationals in the hospitality sector is absolutely crucial. A British Hospitality Association report shows that 62,000 EU nationals are required just to keep the sector ticking over. Eighty per cent of staff in one local hotel are non-Great Britain EU nationals. Concerns have also been raised that the sector might struggle to bid for events and conferences if academic and industry strength does not exist. However, inbound tourism is at an all-time high, and the sector wants to maintain that.

On other challenges, rural development programme EU funding is guaranteed only until March 2019. Certainty is needed about funding after that.

We went on to discuss what could be done. One person thought that the Scottish Government should be doing much more to attract inward investment in Scotland, but there were mixed views on that at the table—some thought that a lot is being done. However, it was agreed that it is important that we send out the right message and that Scotland and Britain are open for business.

Another key theme was that thinking must be long term, particularly from the hospitality sector. There has to be more than just one budget to the next year. There has been uncertainty about the rates position, and there have been last-minute decisions. A sensible resolution is needed to take forward a rates structure.

On long-term thinking, more investment in transport and infrastructure was thought to be key to attracting inward investment.

On funding for EU students, universities do not know whether they will still have fee-free status for EU nationals. A key question that they want to be answered is what will happen on that. If EU student funding is withdrawn, will it be maintained through Scottish students?

We then discussed the labour supply. There was a feeling across our group that guarantees need to be given to non-GB EU nationals who live and work here that they can continue to do so. We need to look at how we can attract a non-GB workforce here and acknowledge the different migration needs between Scotland and other parts of the UK. There was a feeling that Scotland needs more migration and that, if migration falls, we need to change perceptions about the hospitality sector and possibly the rural economy to attract more Scottish workers into those industries. One person suggested looking at a regionally administered immigration system. The general feeling was that people need to feel welcome here and that investment is needed to attract people here.

We then considered opportunities as a result of Brexit. One person felt that we could see the modernisation of sectors that had previously been held back by EU rules. For example, there could be changes in the agricultural structure, which is based on the common agricultural policy regime. The hospitality sector thought that it would be good to avoid some EU legislation—for example, the package travel directive, which is due to come into force. It thought that, despite that directive being well meaning, it could restrict the innovation of small businesses in the hospitality sector.

There was also a feeling that there is an opportunity to grow the manufacturing base, particularly if we are outside the state-aid rules and depending on whether that matter is devolved. Also, there should be more flexibility on regional selective assistance. There was a feeling that there should be tax incentives for start-up businesses that would incentivise people to come here, particularly to visit.

It was felt that it is important for higher education institutions to work with EU institutions not just in relation to money but to maintain relationships across the EU. On funding, there was a feeling that it would be good to know that, if the UK does not participate in geographic programmes, the Scottish Government still could.

On investment, there was a brief discussion on innovation hubs. It was thought that they are a good idea but that there needs to be better knowledge of them, what they are doing and the benefits for industry. There is a belief that they need to be clearly aligned with opportunities and where we want to go in the long term.

Finally, we discussed community impact. We heard that there is a lot of pressure on the third sector. It is reliant on European social funding, which accounts for about 40 per cent of project funding. It is already affected by public sector funding cuts and will potentially be hit by European social funding. There will be a double whammy, because there could be an increase in demand for employability and advice projects that are provided by third sector organisations. Again, we heard the plea to move beyond short-term funding and thinking.

To sum it up, in keeping with the other groups, the key themes were uncertainty and the need for long-term thinking, for the right messages to be sent out and for local investment. That came across loud and clear.

The Convener: Thank you.

Ash, would you like to add anything?

Ash Denham (Edinburgh Eastern) (SNP): Neil has given a comprehensive summary, but I will mention a few things that I felt came across strongly.

One is about the reputational damage aspect of Brexit and the perception that the UK is sort of pulling up the drawbridge. Interestingly, we heard that the negative effect of that is not just in Europe but outwith it—China and America were mentioned. We heard that, with students and university staff, the effect is not just on those coming from Europe; it is on people who potentially could come from outwith the EU.

On infrastructure, there was a plea for increased connectivity in relation to digital infrastructure and in relation to road, rail and so on. People felt that this part of Scotland is neglected in that respect, which needs to be looked at.

We also spoke about what the Scottish Government is doing to promote Scotland abroad, particularly with regard to trade and foreign direct investment. Some people felt that plenty of things are being done, but others said that more could be done to promote that so that more people are aware of what is out there and how businesses can connect with what is available.

The Convener: I thank my colleagues for that comprehensive feedback from this morning's workshops. I also thank again those who participated in the workshops. I hope that people recognise some of the main elements that were discussed. We have gathered a lot of information and we will want to raise some of the points with the cabinet secretary later this afternoon. Obviously, we will not be able to raise them all, but they will certainly form part of our report. Those who attended the workshops are welcome to come to lunch and to attend the session this afternoon with the cabinet secretary.

I suspend the meeting for what will have to be a very quick lunch, because we need to start again at 1.15 pm.

12:31

Meeting suspended.

13:15

On resuming—

The Convener: The second item on the agenda is evidence on the expenditure proposals in the Scottish Government's draft budget for 2018-19. I welcome Derek Mackay, the Cabinet Secretary for Finance and the Constitution. I remind colleagues that we considered the cabinet secretary's taxation proposals at our previous meeting. Mr Mackay is joined by officials from the Scottish Government: Graham Owenson, who is the head of local government finance; John Nicholson, who is the deputy director for financial scrutiny and outcomes; and Scott Mackay, who is the head of financial co-ordination. Is that correct, Scott?

Scott Mackay (Scottish Government): Yes.

The Convener: Well, I am glad that you are here to help us to co-ordinate.

Scott Mackay: Thank you.

The Convener: I invite the cabinet secretary to make a short opening statement.

The Cabinet Secretary for Finance and the Constitution (Derek Mackay): Thank you, convener. I will briefly update the committee about a technical matter that was discussed at last week's revenue session, which was the marriage relief allowance. I have had confirmation from Her Majesty's Revenue and Customs, via my officials, that the matter will be resolved. I will write to the committee for its full consideration.

It is a pleasure to be with the committee in Aberdeen to discuss our expenditure plans for 2018-19. As I have said previously, there is a challenging economic and fiscal environment. We know that our economic fundamentals remain strong but that we must boost our productivity and grow our working-age population. That is why there are a number of measures to help to stimulate and support the economy, including £4 billion of infrastructure investment; a 64 per cent uplift in the economy, jobs and fair work portfolio; the £150 million building Scotland fund; and, with a doubling of investment to £80 million, a range of measures to support Scotland becoming a more active nation. We will invest £50 million towards the target to phase out the need for new petrol vehicles by 2032 and we will also support a low-carbon innovation fund to the tune of £60 million.

There will be £137 million as part of the commitment to invest more than £500 million over four years in energy efficiency and heat decarbonisation, and the procurement of a £600 million investment package in our reaching 100 per cent digital programme, supported by £21 million from the United Kingdom Government. In total there will be investment of £2.4 billion in our enterprise and skills bodies, and the most attractive business rates or non-domestic rates system anywhere in the UK.

The draft budget protects our public services and those who deliver them, including a £400 million additional resource investment in the health service, over £200 million above inflation; a 3 per cent pay rise for all those earning less than £30,000; £243 million of investment for the expansion of early learning and childcare; and £170 million for the attainment Scotland fund. Over £20 million will protect the police budget in real terms, and Scotland's police and fire services will retain the full benefit of their ability to recover VAT, boosting their spending power by an additional £35 million.

The 2018-19 local government finance settlement, funded through the draft budget, foresees an increase both in revenue and capital investment as part of a wider package of measures. Together with local authorities' ability to increase council tax by 3 per cent, which is worth about £77 million next year, that will generate a real-terms increase in the overall resources available for local government services.

The draft budget also maintains our support to mitigate the worst effects of the UK Government's welfare reforms and deliver fairness for our citizens, including full mitigation of the bedroom tax, the establishment of a tackling child poverty fund worth £50 million over the period of the child poverty delivery plan, and the first £10 million of an ending homelessness fund.

As the committee will know, individual portfolio ministers have lead responsibility for the planning and delivery of expenditure in their areas, but I hope that I have given an overview of this Government's priorities. My cabinet secretary colleagues have been giving evidence in recent weeks—or in some cases months—on the spending proposals that each portfolio has set out in the draft budget. I hope that the evidence that they have provided to Parliament gives much of the detail and that that has been helpful. I am happy to give my own perspective on the strategic direction that drives our proposals where that would be helpful.

I hope that the committee agrees with the Parliament's financial scrutiny unit that we have been effective at delivering on the budget process review group's recommendation on transparency and accessibility.

Finally, convener, I wish to put on the record again my willingness to engage with all members of Parliament to build support for my tax and spending proposals. I value the contribution that the committee will make in the process through your scrutiny of the Government's plans and your recommendations.

The Convener: Thank you, cabinet secretary. I am sure you are aware that, this morning, a wide cross-section of people from different organisations and businesses in the north-east came to give us some evidence on the issues of Brexit and the Scottish budget. I am acutely aware that today's session is primarily focused on the expenditure side of the budget, but I think that it is appropriate for me to reflect on one of the key themes that came through in this morning's discussions. The others will be drawn out in the report that we will produce towards the end of the month, and the Government will get a chance to respond to it in detail.

One of the key themes this morning was a significant consensus on the need for greater local control, particularly over taxes that are generated in the north-east of Scotland, whether that is business rates or any other taxation. I know that you will not be able to address that specifically in your budget for the next financial year because the draft is already out, but how do you respond for the longer term to the desire for more local control, with more decisions being made in the north-east and local solutions being found?

Derek Mackay: On a policy front, there is certainly a desire for more localism and flexibility. For example, in our negotiations, local government has expressed a clear desire for increased flexibility nationwide, not just in the north-east. We are trying to respond to that in a number of ways. One of the ways in which we are doing so is through the governance review that we are doing in partnership with the Convention of Scottish Local Authorities, which, essentially, looks at local governance. There is a policy perspective here in relation to the possibility of using the legislation on community empowerment that I initiated when I was the Minister for Local Government and Planning. There is also existing legislation around the power of wellbeing, which is not that well used. Perhaps there should be more emphasis on the flexibility that that could bring.

I want to tackle a major misapprehension that I know exists in Aberdeen—I felt it through the course of the revaluation. A lot of people do not realise that non-domestic rates are retained by each local authority. Council tax, too, is retained by each local authority. I make that point, even though it might seem quite obvious, because sometimes people have been told that their money is sent elsewhere. For example, people in the north-east have been told, for political reasons, that their money was all sent to the central belt. That is not the case. Every penny of council tax and non-domestic rates is retained by the local authority in which it was raised.

I will give an example that relates to the drive for more empowerment and financial flexibility locally. There is occasionally a request for a transient visitor levy or a tax on the hospitality sector. That has not been in accordance with Government policy, but it allows me to make the point that, where local authorities or others approach the Scottish Government with an approach for greater financial flexibility and the ability to raise taxes, we will engage in that discussion, but it would be helpful if we could look at evidence and a business case that would allow us to consider that more fully. We will be open minded on such matters.

As evidence of greater financial freedom, I would point to city and region deals. The budget for that area is doubling in the draft budget from about £60 million to about £120 million. That will deliver greater financial freedom. As I say, I think that there is a sense of community empowerment, which is being supported by the communities brief.

We are supporting localism in a range of areas, but I have to clarify some of the misunderstandings about local government finance. Certainly, there is an on-going debate about who controls what. That is why we are engaging in a governance review in partnership with COSLA.

The Convener: We turn to some of the specifics on the expenditure side of the budget. I am sure that you are aware that one of the main concerns that have been raised by a number of people with regard to the spending allocations in the draft budget is the level of funding for local government. How would you respond to those concerns and what might you do about them?

Derek Mackay: We touched on this issue on the revenue side. As I said at the presentation of the draft budget, this is a fair settlement for local government. I know that local government was forecasting and planning for worse, and that this settlement is better than any council had been planning for. At the meeting that I had with COSLA, it reacted positively to the settlement and said that it appreciates the efforts around understanding the needs of local authorities. For example, COSLA identified that councils' need in relation to social care was around £60 million, which is why the figure for support for local authorities in relation to social care is £66 million. COSLA is also satisfied with the response to individual requests for support around areas such as teachers' pay.

Local government will always ask for more—that is councils' right and their duty; as a council leader I did the same thing. However, overall, the settlement is fair, in that it represents broadly flat cash in resource terms and delivers an increase in capital. Overall, if councils chose to use their council tax powers, that would generate £77 million, which would take local government into the territory of a real-terms increase, using the gross domestic product deflator.

Recognising the fiscal challenge that we all face, it is a fair settlement that responds to many of the concerns that have been raised. What is more, there are a number of partnership areas that concern functions that are not only for local government or the Scottish Government, such as early learning and childcare. We are able to progress our plans for nursery provision and childcare by investment in resource and capital to that effect, with the full £150 million in capital going to local authorities. For all those reasons, I think that it is a fair settlement, at £10.5 billion, including the resources that I have mentioned.

Neil Bibby: I want to clarify an issue. According to the Scottish Parliament information centre, between 2017-18 and 2018-19, there will be a real-terms cut to local government of 2 per cent in the general revenue grant and non-domestic rates income. Is that correct?

Derek Mackay: I will ask Graham Owenson to cover the details if you want to do it line by line.

Graham Owenson (Scottish Government): I do not have the exact figures in front of me but certainly if you add in the specific grant line, it is a flat-cash settlement.

Neil Bibby: We will come to the specific grant in a minute. However, if we exclude the special grant, a 2 per cent cut in real terms to local government in the general revenue grant and non-domestic rates income equals £183 million. Is that correct?

Derek Mackay: If that is what SPICe says, I am not challenging the SPICe briefing.

Neil Bibby: Mr Mackay, you are always on about discretionary spending and you are concerned about your budget being cut in terms of discretionary spending. Why, then, are you cutting discretionary spending for local councils?

Derek Mackay: Again, I have explained that, overall, the resource reduction to Scotland's budget is £211 million. I have turned that into growth for Scotland's public services by using our tax powers.

We have set out a budget that has investment for the NHS, education, the police and fire services and other commitments, recognising that local government is a priority and delivers shared priorities. There is essentially a flat-cash settlement for local government—not a reduction in cash—with an increase in capital.

13:30

As part of that, in terms of discretionary spend and other projects, we believe that childcare provision is a joint priority so it is not unreasonable to give an extra allocation to local authorities for that or for teachers' pay or for the pressures around social care. Local authorities receive such investment as part of the settlement. That might be one of the reasons for the point of difference between the SPICe briefing and the numbers that we have given you.

Neil Bibby: It is interesting that, when it comes to discretionary spending, there seems to be one rule for you and another for Scotland's councils, Mr Mackay.

You are saying that it is a flat-cash settlement if you include additional money through specific revenue grants; SPICe is saying that if you include the specific revenue grants, it results in a real-terms cut of 1.4 per cent. Would you dispute that?

Derek Mackay: I am not going to argue backwards and forwards about the SPICe briefing versus our briefing; the figures that I have presented to you represent the Government's position. We are saying that specific commitments, which may be dedicated resources for a dedicated function, but one that local government delivers, lead to a cash increase in resource—albeit small, of about £3 million or £4 million—and then to a more substantial increase in relation to capital.

The difference between local government and the health service, for example—unless we want to introduce prescription charges, which would be determined by the Government—is that local authorities can increase their resource by using their council tax powers. Other parts of the public sector do not have that ability and the resource that they receive is almost entirely determined by the Scottish Government and the decisions that we make in the draft budget.

Neil Bibby: Councils across Scotland, including in Aberdeen and Glasgow, are bracing themselves for significant savings and cuts. Your own council, Renfrewshire, is looking to cut funding for vital support services for vulnerable families, to reduce bin collections and, potentially, to increase parking charges. Day centres are also at risk. Is it not the case that, excluding health, the majority of services to the public are provided through local government? Why, then, is there a real-terms cut to local government budgets? You have said that this is a budget for public services; how can it be a budget for public services if it is cutting local government budgets in real terms?

Derek Mackay: Broadly speaking, local government accounts for about a third of public sector expenditure; the NHS accounts for another third; and everything else accounts for the final third. Local government is a major delivery vehicle for public services. I have made the point that if local authorities use their council tax powers, they can deliver a real-terms increase for their budgets.

A lot of local authorities do scenario planning in budget preparations, and many put in the public domain what savings might look like. They then get the settlement and reconsider the savings options that they have put in the public domain. There is always a difference between the savings options that are put in the public domain and what is finally decided and delivered by local authority councillors. I am not saying that local government has suddenly entered the land of milk and honey—far from it. I have recognised that there are challenges. However, what local authorities are preparing for is better than what they might have forecast, for which they presented their savings options.

Local government is an important part of the public sector family. The settlement is fair during the challenging fiscal circumstances that we face. That said, I know that these are meant to be questions to me as cabinet secretary, but, for example, why should investing in the health service not be a priority? Why should investing in further and higher education not be a priority as well as investing in local government services? Within that, there are ring-fenced funds for attainment to be delivered by local authorities as part of the overall settlement.

Neil Bibby: This afternoon, you have described the settlement as fair, and in the press, you said that it is very fair. According to SPICe, between 2010-11 and 2017-18, the local government revenue budget has fallen by 8.5 per cent and the Scottish Government budget has fallen by only 5.9 per cent. How can you say that local government is being treated fairly when you are disproportionately cutting local government budgets more than your own budget? How can you suggest that the settlement is fair when you are cutting it in real terms?

Derek Mackay: We can argue about whether it is a fair settlement or a very fair settlement, and the committee can choose which term it prefers. In response to the question, I would say that it was possible to protect local government for a period of time. From memory, the overall reduction for local government south of the border is four times that in Scotland; the reductions in England are about 20 per cent in real terms. Because local authorities have the ability to raise council tax, they can supplement their income to provide services. That has to be borne in mind.

There are pressures on other parts of the public sector, including the NHS. There are, of course, commitments to ensure that the NHS is funded, as I have pointed out. It has a large call on our resources. We discussed that during elections, and it is also a priority for the public. I am sure that Mr Bibby is not disputing the need to invest in the national health service at above the rate of inflation at this time.

The two local government settlements that I have overseen so far have ensured that local government has had a fair settlement. This year, if local authorities use their council tax powers, there will be a real-terms increase in resource. In the circumstances, that is a good outcome for local government.

Neil Bibby: Can I—

The Convener: Neil, there are others who want to ask questions in this area. I will get some other members in and come back to you before we move on to the other areas. Willie Coffey and Patrick Harvie want to ask questions.

Willie Coffey: Cabinet secretary, you mentioned a figure of £10.5 billion for local government, but the SPICe paper, which I also have in front of me, tells us that, when the other sources of support to deliver local services are added in, the figure climbs to £11.3 billion. Some colleagues like to omit to mention some of the investment that is being made in local government because it is not directly in the initial allocation, but substantial extra funding is being made available to support local services. When we add all that up, it comes to about £11.3 billion and not the £10.5 billion that you mentioned. Can you confirm or clarify that figure?

Derek Mackay: I do not have that SPICe paper in front of me. I attend the Local Government and Communities Committee and, as I have described to that committee, there are the revenues that are proposed in the grant settlement and the non-domestic rates, and there are also funds that come from portfolios that go through local government. There is therefore a range of funding streams that reach local government, especially when there are joint priorities.

To contextualise it, as I have said, the settlement is broadly the same with an increase in capital. Even on capital, we have to take into account the massive investment in housing, which is largely done through local government and registered social landlords, and the city region deal arrangements. Housing investment is up to about £700 million to achieve the target of 50,000 affordable homes and city region deals have in essence doubled, and they are negotiated with local government as key partners. Beyond the core settlement, there is a range of funding streams that reach local government.

Sometimes there is a misunderstanding. I get the point about the other pressures on local government. Those pressures are why there is sometimes a difference between what local government receives from the Scottish Government overall and the overall pressures that it might face. Those figures are sometimes interpreted as a reduction in funding from the Scottish Government to local government, when in fact, although local government may well face extra pressures, there is not a reduction in grant from the Scottish Government.

Patrick Harvie: To paraphrase your response to the UK budget, you said that the extra capital money and financial transactions were welcome and that you would try and do good things with them but that it was important to remember that they cannot pay for public services and are not revenue funding. Does local government not have the right to make the same argument? Whichever way we count the grant to local government—whether it is just the general revenue grant or whether we include all the other funds that are available—all the various ways of counting that produce significantly bigger revenue cuts than the £77 million that you point to as the extra council tax that could be raised. Even if all local authorities raise council tax by 3 per cent, that cannot make up for the cut to the funding that can provide public services at local government level. Therefore, is it not clear that, unless you change your position on the draft budget, the inevitable consequence is cuts to public services at council level?

Derek Mackay: Local government will have choices to make about what to invest in. I just make the point that adding in what I think are partnership priorities takes us to a position of a cash increase in resource. I recognise that it is not a real-terms increase and that it is a cash increase. Local authorities can use their tax powers to take it up to a resource increase for front-line services. As I say, capital is separate. Patrick Harvie makes a point about resource, and I cannot be clearer on that: I accept that it is flat cash in terms of resource but, if councils use their powers, that can take them to real-terms growth by achieving that £77 million.

Patrick Harvie: The three figures in the SPICe briefing are a £183 million cut, a £135 million cut or a £157 million cut, depending on which grants we count. None of those can be made up with £77 million, can it?

Derek Mackay: Not on those figures, no. However, I would want to understand more fully what elements are discounted by SPICe as new resource but included by us to get to the flat-cash figure.

Patrick Harvie: A table in the SPICe briefing shows the areas of Scottish Government expenditure that are going up in real terms and the areas that are going down. Local government is consistently in the bottom half of such charts, showing consistent cuts. What is the Scottish Government's reason for or policy objective in consistently giving local government that low priority?

Derek Mackay: With clearly limited resources—although we are making a decision to use tax powers—we have priorities and service needs to consider, and the main one is clearly the national health service. We have made it clear that investment is required in the NHS, and that is reflected in our spending plans to invest more than £400 million extra in the national health service. Government is about choices and priorities, but I believe that we have been able to protect local government, recognising that it, too, has revenue raising ability.

I say again that there are many partnership areas in which local government delivers, and the Scottish Government is investing in them—in capital and housing, for example. The massive increase in that investment suggests that we trust councils to deliver housing and that we want to invest in housing. That is an example of a massive increase in resource to be able to achieve the target.

We have been able to show that there are priorities that are delivered by local government which the Government supports. Education is another example. The tackling of the attainment gap is clear. Some colleagues might object to ring fencing, but allocating resource for that to local government has been necessary and its worth has been proven.

Patrick Harvie: Out of around 25 headings in the chart that shows the real-terms changes in the draft budget, local government is the third last; it has the third biggest cut. Is that a fair reflection of the Scottish Government's priorities?

Derek Mackay: I think that local government has received a fair deal from the Government.

The Convener: Neil, if your question has already been captured, we will move to another area.

Neil Bibby: I do not think that it has. I will finish off.

I do not think that the settlement is either fair or very fair, cabinet secretary; I think that it is a dreadful settlement, and I do not think that COSLA accepts that it is a flat-cash settlement. Surely a fair settlement would take cognisance of what COSLA has said about the increasing demands and costs that are being placed on councils. Demand is not static. COSLA has said that it needs an additional £545 million just to stand still with the increasing demands, pressures and costs. We have dealt with the real-terms cuts, but why have you ignored the plea for additional funding for local government? COSLA has specifically said that £545 million is needed. Is it wrong to ask for £545 million just to stand still?

13:45

Derek Mackay: No. I think that it is right. I will quote the evidence that COSLA gave to your committee. It said:

> "I do not think that we are calling for an extra £500 million explicitly".—[*Official Report, Local Government and Communities Committee*, 22 November 2017; c 36.]

Graham Owenson: That was to the Local Government and Communities Committee.

Derek Mackay: I am sorry—that was in evidence to the Local Government and Communities Committee. I look at the work of every committee, not just that of the Finance and Constitution Committee.

Even COSLA is not seriously arguing for that kind of figure. That is a matter of public record and a matter of fact; it is in the public domain. I know that local government is more realistic and constructive in the negotiations, and that is what it has said as a consequence of them. It plays in the real world, negotiates on the basis of its actual pressures, and we come to a settlement. I then write to all 32 local authorities and ask them whether they will accept the offer. The budget is sanction free, and the engagement is constructive. I refer again to what COSLA said to the Local Government and Communities Committee; even COSLA is not asking for the figure to which Neil Bibby referred.

The Convener: During the course of that discussion, we heard about the Government's health service expenditure priorities. Given that that is the biggest expenditure area, perhaps we should deal with it next. I think that Ivan McKee has some questions about it.

Ivan McKee: I want to touch on the health budget and talk about the national performance framework outcomes, so there are two parts to my question.

On the health budget, there is a real-terms increase of £175 million or 1.3 per cent in 2018-19, and a cash increase of £373 million or 2.8 per cent, which is obviously to be welcomed. I want to look at the two years so far in this parliamentary session and to look forward and consider where we are going over the whole parliamentary session on manifesto commitments. In cash terms, there has been a £740 million increase and there is a £2 billion commitment over the five years of the session. In real terms, there has been a commitment to a £500 million increase in the health budget and, so far, in the first two years, it is up by £370 million. Obviously, that is a significant way down the road.

Do you want to comment on where we are up to so far, two years into the five years, on the manifesto commitment for the parliamentary session, where that is going, and whether you see that manifesto commitment as being secure?

Derek Mackay: It would be best just to repeat what the Cabinet Secretary for Health and Sport has said. She and her officials believe that that financial commitment is on track to be truly judged by the end of the parliamentary session. It is on track in that above-inflation increases have been given, and we have passed on Barnett consequentials in quite difficult circumstances.

Ivan McKee: On the national performance framework—

The Convener: Can we come back to this line of questioning later, Ivan? I would like to get a broader spread of voices from different perspectives at this stage.

Adam Tomkins has questions on social security and equalities.

Adam Tomkins: I want to understand how the numbers in the budget document relate to the Government's changing priorities around social policy, children and families and the fairer Scotland approach. The communities portfolio budget shows that the fairer Scotland budget has increased fourfold, from about £7 million to just shy of £28 million. At the same time, the equalities budget has increased by 12 per cent, up to £22.7 million, and there is an additional £24.5 million for the third sector. Those three lines amount to £75 million. How will you ensure that that money is spent effectively? What is that £75 million trying to achieve? Why do we need to spend £75 million on those lines this year when last year we spent significantly less?

Derek Mackay: The call on resources for portfolios is a matter of discussion at cabinet between myself and the other cabinet secretaries, who have some flexibility with regard to what they determine to be priorities. I suggest that, with regard to assessing the priorities in the communities portfolio, Angela Constance and Jeane Freeman could offer more information about why they consider that those areas need that money.

I argue that we have done a lot around equalities, inequality and poverty, and around tackling sensitive issues such as sectarianism and discrimination. A lot of that work is covered by those budget lines: the Cabinet Secretary for Communities, Social Security and Equalities views those elements as priorities within her overall settlement, and there have been increasing calls on those resources.

Part of the equalities line has not increased for a number of years; the cabinet secretary has taken the view that it should be increased at this time. The question that Adam Tomkins asks is more for the Cabinet Secretary for Communities, Social Security and Equalities with regard to priorities within that strategic spend. However, I think that the figures show that the communities brief has sufficient resources to deliver what has been pledged in programme for government commitments.

Adam Tomkins: The biggest increase—as I said, it is a fourfold increase—is in the fairer Scotland budget. As I understand it, that increase is largely as a result of commitments that the Scottish Government has made pursuant to the Child Poverty (Scotland) Act 2017.

I notice that, in the education and skills portfolio, the budget for children and families is shrinking and that, in particular, the budget for creating positive futures is shrinking by about a third—that is, by £30 million.

I am trying to understand whether, taking all those numbers together, there really is a change in priorities and spending commitments, or money is simply being taken out of one budget that relates to children and families, and which happens to be in the education and skills portfolio, and is being put into another budget that relates to children and families, and which happens to be in the communities portfolio.

Derek Mackay: Now that you can hear me more clearly, I say that I am sure that the committee welcomes that. [*Interruption*.] I can use that as an example on which we can engage with this committee and the Equalities and Human Rights Committee—it may well have come up at the committee meetings with each cabinet secretary—so that you can do the Finance and Constitution Committee's job of taking a strategic overview of the budget by bringing both together. However, rather than trying to speak to another cabinet secretary's portfolio with regard to the detail of their commitments, I want to take that as an example and then bring together a strategic response about how the two relate.

That takes me to the charge that there is a bit of cost shunting going on in the system. That is not the case. Overall, where there are changes to budget lines, those are either because there has been a transfer of responsibility or because there is no longer a requirement for particular spend in a portfolio. There is no obfuscation on my part about making savings, and I will, to prove the point, write to the committee on the example that Mr Tomkins has given. As I said, some of the portfolio spend will be determined by the portfolio, based on the pressures and priorities. There is an overview and a strategic approach and, collectively, we deliver on priorities, but there is some flexibility for cabinet secretaries. You can see that from reading the cabinet secretaries' engagement with parliamentary committees on the priorities for them and why they arrived at their decisions. There is no transferring of lines to hide any savings—although it was growth in budget lines that led to Adam Tomkins's inquiry. I am happy to clarify that point in writing.

Adam Tomkins: I am surprised that the children and families line of the budget is shrinking, given that we know, for example, that the biggest single driver of homelessness in Scotland is family breakdown. Is that budget shrinking because you know that you will not need to spend any money this year on the discredited named person scheme?

Derek Mackay: No, it is not, is the straightforward answer to that question. If we want to talk about what is in the budget in relation to children and families priorities, there is work around attainment, mitigating welfare reform and the expanded baby box, as well as more on family nurse partnerships and enhancements in social care provision. To go to the core of the question, if we look at the totality of resource, we see that it matches policy priorities and will deliver what we said we would deliver in the programme for government. A change in an individual comprehensive budget line of a substantial budget might just be because of the nature of that budget line. However, overall, we are absolutely delivering more for children and families, and that is reflected in portfolio spend.

The Convener: Emma Harper also has questions on equalities.

Emma Harper: The Scottish women's budget group provided us with a briefing, which makes many positive points but also some recommendations. Adam Tomkins touched on homelessness, and I am interested in the economy, jobs and fair work portfolio, in which there is an uplift of 64 per cent. The Scottish women's budget group welcomed the new tax bands and the protection for people on lower incomes. Will you expand on where you would like the money from the uplift in that portfolio to be spent?

Derek Mackay: Is that in relation to the economy portfolio?

Emma Harper: Yes.

Derek Mackay: That relates to my opening remarks about growing and stimulating the economy. You have tied the question to equalities, which makes sense, in relation to how we assess tax policies and how we spend resources. We can make an assumption that expenditure on enhanced childcare benefits only women—although, actually it benefits women and men—and that it would be good for getting more people into the labour market. That is not in the economy portfolio, but there is increased resource for city deals, research and development, business support, employability and training, all of which have a focus on growing the economy, supporting skills and tackling the gender gap and the skills challenge.

A substantial element of the uplift in the economy brief relates to the use of capital and financial transactions to support, for example, Scottish Enterprise, Highlands and Islands Enterprise and the new south of Scotland enterprise agency, on which preliminary work is taking place, as well as capitalising the new national investment bank. I have touched on research and development, and we know that enhancing and improving productivity is important to the strength of the economy overall. Equality is tied into all that, including growing the economy, having a fairer economy and allowing people to have access to opportunities to get into work, if that is appropriate for them. You touched on the Scottish women's budget group: I have a further meeting to have on that.

I appreciate that it is spend and tax that are significant here and that the more progressive income tax policy will benefit women.

Emma Harper: You brought up the south of Scotland enterprise agency, the development of which I welcome. Initial funding of £10 million is proposed for it. Are there any specific ideas or details on that yet? It, too, is mentioned in the briefing from the Scottish women's budget group, but that group did not look specifically at the equalities aspects.

Derek Mackay: I do not have more detail, at this stage, but I imagine that the Cabinet Secretary for Economy, Jobs and Fair Work, who has lead responsibility, will have that detail.

Let us not pretend that Scottish Enterprise did not try to support the south of Scotland. It did: I visited projects that were supported by Scottish Enterprise in the south of Scotland. Creation of the new agency will provide greater focus on that part of the country. That resource is to ensure that.

There was a concern that the new agency would just be created by extracting from Scottish Enterprise that which was already going on in the south of Scotland. This additional resource is to make the point that it is about additionality, not just replication of SE's work. The economy secretary could provide more on the development of the agency, if that is required by the committee.

14:00

Emma Harper: I have a question about homelessness, which Adam Tomkins raised briefly. There are specific issues about homeless women, especially those who have children. The Scottish women's budget group alluded to that. Will you be considering any additional information or will you look at that group's review in order perhaps to tailor budget spending more for homeless women?

Derek Mackay: Again, I have to be very careful not to go beyond my function and role as finance secretary. Portfolio cabinet secretaries can say more about the detail behind proposed spend; it is for me to make sure that the necessary resources are available. That is why we have increased resources both specifically for poverty and separately for homelessness. That is the first £10 million of the £50 million ending homelessness together action fund. The accountable lines for that then go to the relevant portfolio, which is communities.

Patrick Harvie: I have a brief supplementary on the evidence from the Scottish women's budget group. If we are going to acknowledge that evidence, we should acknowledge the serious criticisms that it contains, not so much about one year's budget but about how we do budgets—how the Government does budgets and how the Parliament scrutinises budgets. The submission says that this draft budget,

"like budgets before it, lacks gender competence".

The group gives specific examples in relation to social care as an investment in the economy and in relation to how the phrase "economically inactive" fails to recognise the economic value of unpaid work, the bulk of which is done by women.

We are not going to fix the issue overnight, in a single budget, but does the Government recognise that a lot more progress needs to be made in terms of gender analysis in the construction of budgets as well as in relation to our responsibility as a Parliament in scrutiny of budgets?

Derek Mackay: Yes. I could go on at length. but I am happy to concede the point. I think that we can do more work on that.

Patrick Harvie: I hope that we will hear more on what will be done differently in the future, but it was helpful to get some clear honesty there. Thank you.

The Convener: We will move on to capital and the economy.

Murdo Fraser: The cabinet secretary has said in the past that this is a budget to help the economy. In discussions that we had earlier today with sector representatives from the north-east, they made the point that spending on connectivity is important to help economic development in that part of the world. The spending plans on connectivity in table 12.1 show that spending on motorways and trunk roads is being cut from this year to next by £136 million, and that spending on digital connectivity is being cut by £76 million. That represents an aggregate cut of £212 million in areas that businesses are telling us would help to grow the economy. How will such large cuts in those areas help economic growth in the north-east and other parts of the country?

Derek Mackay: Those are not necessarily cuts: the nature of capital spending is that resources are spent on a project until it is complete. Once road projects, including those on substantial parts of the A9 and, of course, the Queensferry crossing, are complete, we no longer have to pay for their construction. The issue that Murdo Fraser highlights concerns completion of number of projects. There is a pipeline of future projects but, overall, the nature of projects, many of which are warmly welcomed, is that, when they are completed, there is a different profile of spend. The Aberdeen western peripheral route is another example. You do not necessarily fund the budget line to the same extent on capital; capital is delivered by the projects, and those projects are largely complete.

On digital connectivity, we could point to the fact that the current digital regime is coming to an end, but we are preparing for a £600 million investment to reach 100 per cent of households and to take superfast broadband to every part of Scotland. That £600 million spend is profiled to start not in the next financial year, but in a future year because—I am advised—its procurement will take about a year, although the advertising for that procurement is already in the public domain. There is a point at which expenditure will go down, but it will then be ramped up again significantly as the project takes shape. The fact that there are fluctuations in expenditure should not be taken to suggest that the issue is not a commitment or a priority. That is just the nature of spending on capital projects.

Murdo Fraser: I accept that point, but you will be aware of the focus in Parliament on digital connectivity—over the past few months, in particular. I note that there is a more than 50 per cent reduction in the digital spend from this year to next. Would there not have been an argument for starting the next part of the project sooner, rather than seeing this big drop-off on the capital spend for digital next year?

Derek Mackay: I again make the point that that is the nature of procurement in such large infrastructure projects. Let us put aside the political argument about whose responsibility it is. We all know that it is a reserved function, but there is no point having that debate because the Scottish Government is getting on with delivering digital connectivity that is of far superior quality to that which will exist south of the border: it will be 30 megabits per second rather than the much slower 10Mbps per second, and we are taking that to every part of the country.

The procurement exercise for that is massive. I am advised that, even if it goes as quickly as we want it to, it will take a year. Fergus Ewing leads on that, and has been working tirelessly to get clarity from the United Kingdom Government about its procurement intentions. That is important because we need to understand what the UK Government is going to do at UK level, and how it will procure digital connectivity from one of the very few suppliers that can do the work at scale. The issue is terribly complex, but the explanation that I give to you is that, as our digital schemes come to an end, the superior commitment to take superfast broadband right across Scotland will require that a full and proper procurement exercise be carried out in a professional way, which takes time. Murdo Fraser would expect no less than that. That is why the profile of spend is as it is.

Murdo Fraser: How much flexibility is there in the budget? At this point in the process last year, you had presented your draft budget to Parliament, and by the time that we got to the stage 1 debate at the beginning of February, you had found an extra £191 million from the budget exchange mechanism, as you called it, or down the back of the sofa, as I think some other members characterised it. What is down the back of your sofa this year?

Derek Mackay: The good news for the committee is that I am moving house, so I do not have the requirement for the same sofa. If any member requires a three-piece suite, they can get in touch. I am only joking.

The issue last year concerned flexibility around non-domestic rates. I have read the Audit Scotland report, and the plan is to get that account back into balance. The other issue concerned budget exchange. The table on page 184 of the budget document covers the additional resource that is going into the budget—I think that I touched on this last week.

Members will see that the figure for 2017-18 in the “Budget Exchange/Reserve” line is £203 million and that the proposed figure for 2018-19 is £158 million. That is the other area of flexibility. In the past, finance secretaries may have been able to hold on to that money for financial management reasons, for example. I have used the money up front for the purposes of budget negotiations. The figure is what it is because there is very tight financial management, and that is the figure that officials think is most appropriate. However, it remains under review, of course, because we are not at the end of the financial year.

I hope that that answers the question. Those are two key issues; the third key issue is the change in tax policy, which generated a sum that ultimately contributed to the final position of the budget.

Murdo Fraser: When you present the Budget (Scotland) Bill at stage 1 in Parliament in a few weeks, should we expect any dramatic changes to the size of the budget, or are you telling us that this is it?

Derek Mackay: I can say only that, if Murdo Fraser is in the chamber, there is always drama. I will be blunt: I continue to have an open door for Opposition parties. It is clear that I cannot get a budget through Parliament unless there are abstentions or a proactive vote for the budget, so I will continue to negotiate with willing partners, including Murdo Fraser.

Murdo Fraser: That is a very fair offer, cabinet secretary, but it would, of course, help all potential negotiating partners if they knew how much money you have in your back pocket.

Derek Mackay: I have spoken fairly about the difference in non-domestic rates flexibility. There is a clear plan to bring that account into balance, which is why that position is as it is. I have also spoken about budget exchange and the current assessment of what is reasonable to contribute to the budget. The other lever that is available to parties is a change in tax policy. If any party thinks that I have made the wrong expenditure priorities, there can be a shuffling of numbers. It is not for me to tell Opposition parties how to bring alternative proposals to me. In a perfect world, the budget that I have presented is the one that would go through at stages 1, 2 and 3, but I am a realist so I must engage with other political parties.

The Convener: I am not sure that the Finance and Constitution Committee is where I want to see negotiation between the Scottish Government and the Conservative Party begin. That would surprise everybody. However, that seems like the beginning of a real opportunity.

Derek Mackay: Any place, any time.

The Convener: Murdo Fraser has raised the issue of NDRI. James Kelly has some supplementary questions on that, so let us deal with them now.

James Kelly: Cabinet secretary, you said in response to the convener's summary of the sessions this morning that all non-domestic rates income is retained locally by local councils. However, that is not the case for this year. Table 10.18 in the draft budget document shows that forecast non-domestic rates income is £2,812 million and the distributable amount is £2,636 million, which means a gap of £176 million. Can you explain why what is being distributed is £176 million less than what is being taken in?

Derek Mackay: Yes. I can explain that by pointing out that non-domestic rates essentially involve multiyear budgeting and that, in some years, more is raised than is distributed. That is how that is accounted for. Just to be clear, there is a balance to be struck; ultimately, though, it was all given to local government, and that continues to be the case.

James Kelly: In effect, it means that, this year, not all of what local government has been forecast to collect will be distributed. Some £176 million will be retained.

Derek Mackay: Nothing is retained; it is in the pool. I assure Mr Kelly that the resources are guaranteed. The local government figure is what local government gets, irrespective of what is collected through non-domestic rates; in some years, however, more of that income has been distributed than has been collected. We are ensuring that the pool is in balance—in other words, at zero—which will mean that, in some years, less will be distributed than has been accrued to make up for the converse in other years.

14:15

James Kelly: I recognise the points that you have made, cabinet secretary, but what I am saying is that if all the money collected in respect of non-domestic rate income was distributed, local government would have £176 million more. That might solve some of the issues that have been raised by committee members.

Derek Mackay: That proposition might well be true, but Audit Scotland and the committee would not be happy if there were a negative balance and I had no plans to address it. There is a choice to be made.

The desire is always to get distribution as close to forecast as possible and, when there is a deficit, to address that issue. That is what Audit Scotland has asked me to do, and that is what I plan to do through the budget. It is perfectly normal practice, and it is what happens to get the account back into balance. It is fiscally responsible and, according to my plans, we will achieve that aim in the course of the next financial year.

This is a policy choice. If we choose not to take that approach, there will be consequences.

James Kelly: The figures in the budget show that £2,812 million is forecast to be collected and £2,636 million is forecast to be distributed. Are those the final figures or will they be amended?

Derek Mackay: Those are our final figures—that is our forecast. In previous cycles, there might have been massive changes as a result of appeals information coming in. I will check with Graham Owenson, but the forecasts are as robust as they can be and have been overseen by the Scottish Fiscal Commission.

Graham Owenson: From 2018-19, the forecasts will be produced by the Scottish Fiscal Commission. Just to add to what the cabinet secretary has said, I point out that the difference in the distribution is a result of the prior years' adjustments; if we take this over a number of years, though, we see that all the non-domestic rates income goes back to local government. The legislation indicates that non-domestic rates income can support only local government spending.

Derek Mackay: One could, however, choose not to address the deficit, although that would fly in the face of what Audit Scotland and other audit agencies expect of us.

The Convener: Let us get back to issues to do with the economy.

Ash Denham: The draft budget includes a 64 per cent increase for the economy, jobs and fair work budget, which presumably covers many of the interventions that you have taken to support the economy. In response to an earlier question from Emma Harper, you mentioned a couple of those interventions such as funding for research and development and the capitalisation of the Scottish national investment bank, but are any other interventions covered by that 64 per cent increase?

Derek Mackay: Everything in that portfolio chapter should be covered by that 64 per cent increase. There is a factual correction somewhere in the document that gives a lower percentage, but the increase in the portfolio is covered quite substantially in that chapter.

The economy secretary will have greater detail on how some of that will be laid out. Some of it relates to future investment plans; we have spoken about some of the Barnett consequentials, and there are also capital and financial transactions over a number of years. Some of the detail of, for example, how the Scottish national investment bank will be capitalised has yet to be determined, because we are still consulting on and finalising the remit. Moreover, a lot of investment will flow from decisions such as those made in 2018-19 around research and development—after all, we know that productivity is an issue—and investment in infrastructure. All of that is significant.

I would also mention housing. Although it is not part of that portfolio—it is in the communities portfolio—it is a fact that investment of more than £700 million in housing is good for construction, skills and apprenticeships as well as for those folk who will live in the quality, affordable housing that is built.

Throughout the draft budget document, interventions are set out that will help to grow our economy and tackle some of the issues that we face. However, the increase that you have referred to largely covers the capital and financial transactions uplift, along with some specific resource investment. The enterprise agencies continue to deliver a key function in that regard.

Is that of assistance?

Ash Denham: Yes.

You mentioned the Scottish investment bank, which the draft budget proposes to capitalise with £340 million of investment. The idea behind that interesting development is to have a new scheme for providing long-term patient capital. In this morning's workshops, people regarded that as a positive step by the Scottish Government, but some participants were unsure of how it will work, and they sought assurances that the approach will lead to better investment decisions. Will you explain a little more about how that funding will achieve more for the Scottish economy?

Derek Mackay: The economy secretary will lead on that, but I have been involved in some of the discussions with Benny Higgins on the bank's formation. That is the stage that we are still at. We have made a financial commitment, and the investment bank will receive those resources; indeed, it could arguably receive more, depending on how we want it to look.

We are engaging on the structures to find out what works best and get as much leverage as we can out of public investment, financial transactions and that kind of capital. There might be an exploration of pension funds and others who might want to contribute to it. It has a great deal of potential to be a success if it reaches a critical mass, which will lead to more people buying into and investing in Scotland and infrastructure here. We want to try to multiply the benefits and have a positive domino effect. The commitment that we have made shows that we are serious about the investment bank, which has the potential to support private sector growth and, crucially, public sector infrastructure, because of its long-term nature.

As I have said, the bank is still at an early stage, and we are engaging and consulting on its structure. The resource that we have allocated of £340 million is from 2019 onwards and is for two years, but we will, of course, try to supplement that. I would also point out that, before we even get to that, there is another element—the building Scotland fund, which is a precursor to the bank and which is resource that can be achieved in 2018-19. Keith Brown, the economy secretary, will consider the best way to compose and structure that.

Ash Denham: Thank you.

Alexander Burnett: The cabinet secretary mentioned financial transactions, for which the draft budget includes £489 million in 2018-19. The financial transactions money is interest-free, and the amounts to be repaid are not adjusted for inflation, with a period for repaying the money of up to 25 years, depending on the projects. Can the cabinet secretary confirm that the real-terms value of financial transactions moneys to be repaid by the Scottish Government to the Treasury might be significantly below the original amount granted?

Derek Mackay: No. The financial transactions line has increased in terms of what the UK Government was proposing to give us, and I welcome that.

Alexander Burnett: I accept that, but my question is whether you accept that the moneys to be repaid will be less in real terms.

Derek Mackay: It depends what we spend it on but, on the basis of what you have just described, the answer is yes, that is the case.

Alexander Burnett: What assessment has the cabinet secretary made of what that profile will be?

Derek Mackay: Are you asking about discussions with cabinet secretaries on their requests for the spend through financial transactions or discussions with the Treasury?

Alexander Burnett: I am asking about discussions with the Treasury on the repayment schedule.

Derek Mackay: I will ask John Nicholson to cover the technical issue of discussions with the Treasury, but I want to make it absolutely clear that the increase in financial transactions came, one might argue, as something of a surprise, because in our engagement with UK Government ministers they gave no hint that there would be an increase. I have welcomed the potential for budget exchange carryover, because the sums are such that we want to plan our spending properly and ensure that those sums are invested correctly. I want assurance on the ability to have budget exchange, especially for this financial year. After all, it has come so late in the day that we want to be assured that we can carry it into the next financial year.

My engagement with ministers happens with no pre-warning about what is coming. I get a courtesy call the night before the budget to say what the headline figure is going to be, and I do not get any detail beyond that. It is up to the UK Government, but I think that there is a better way for it to do business with us and to conduct its affairs so that it can give me better notice. Anyway, it is what it is.

On the basis of that financial transactions figure, we have worked through the allocations for the draft budget, and the officials engage on the detail. The only conversation that I have had in the past has been around the extent of financial transactions and whether, because of their nature, we can have budget exchange. As Mr Burnett has described, it is good to have flexibility from one year into the next, and at a level at which we can have budget exchange.

I ask John Nicholson to comment on the repayment terms.

John Nicholson (Scottish Government): We are still in discussion with the Treasury. As Mr Mackay has said, we have received significantly more financial transactions than we expected to have available, and their profile and issues such as when they will be used and when they will ultimately be repaid are still under active discussion. Answering your question would require us to conclude that discussion with the Treasury on when we expected the FTs to be used and repaid.

Alexander Burnett: It is a hypothetical example, but the Scottish Parliament information centre calculated for us that £80 million of financial transaction money repaid over 20 years with inflation at 3 per cent would be equivalent to a repayment of £44 million. I wonder what kind of assessment has been done—or will be done—in that respect and what we will see in terms of the £489 million.

Derek Mackay: What, exactly, are we being asked to assess—a repayment figure or a value?

Alexander Burnett: A repayment figure.

Scott Mackay: That depends on how those financial transactions are ultimately utilised in terms of the repayment on individual programmes. It might be that the repayments on an individual programme are not directly linked to an even profile, so there might be repayment in full at the end, in which case there could be a variety of real-terms calculations. The point that I am trying to make is that it is not as straightforward as a straight-line analysis. Ultimately it will depend on how those programmes are finalised, and that has not been done yet.

Alexander Burnett: Just to be clear, are you saying that it is dependent on the programmes? I understand from the briefing that the repayment schedule is agreed with the Treasury and is based on the anticipated profile of Scottish Government receipts.

Scott Mackay: Once we finalise the profile of the investments that we are making in that respect, we make an annual return to HM Treasury. We finalise the profile on an annual basis.

Alexander Burnett: If there is a choice of programmes that you can invest in or fund, will you have different profiles?

Scott Mackay: Yes.

Alexander Burnett: Will we be presented with assessments of those?

Derek Mackay: I think that the committee would have to be.

Alexander Burnett: Does that information become public?

Scott Mackay: I do not think that there is any sensitivity around that.

Derek Mackay: If the committee wants more information on this, I am happy to give it more. I can see the appetite of the other committee members for it, so if you want it, you can have it.

Alexander Burnett: I just wonder whether there is a difference in decision making, depending on whether you are investing in programmes that have a short-term repayment profile or funding programmes with a longer repayment profile, given that, at the end of the day, the final sum to be repaid will be less in real terms.

Derek Mackay: It is actually less about that and more about the value of the programmes themselves. The availability of financial transactions leads to an internal process of engaging with cabinet secretaries on the demand and need for and the potential use of a financial transaction. I then have the ultimate responsibility for determining how that is distributed.

From a policy point of view, it is all about what will add greatest value to the economy. Because of the restrictions, not every portfolio can make use of financial transactions. With the communities brief, for example, you could not use them to pay welfare benefits, but you could use them for a help-to-buy housing scheme. The portfolios suggest their portfolio use, and the economy portfolio has clearly suggested the use of financial transactions to help capitalise the national investment bank; indeed, it could make pretty substantial use of them in future years. The issue is judged more by the contribution of such transactions to our objectives and the economy. If you want more information on the analysis of the repayment profile, we can provide that to the committee.

Alexander Burnett: Thank you.

The Convener: I want to bring Ivan McKee back in, so that he can ask about the national performance framework.

Ivan McKee: We have talked a lot about inputs—how much you are spending in different areas of the budget—but, ultimately, what really matter are the outputs and outcomes from the spending by the various portfolio departments.

The national performance framework attempts to measure what the Government is delivering as a consequence of the money that is spent in the budget. Although it recognises that we have the NPF in place, the budget process review group thinks that there is more work to be done in laying out clearly what outcomes are sought with the budget spend in each area, how we can track that and what milestones we can use. From the work that I have done in particular areas, I do not think that the process for looking at the link between the money that we put into the budget, what that money is supposed to achieve and how we measure whether we are achieving that is as robust as it could be.

Do you think that there is more work to be done on the national performance framework and how it links to budget spending lines? What direction do you envisage that going in?

14:30

Derek Mackay: Work on that is already under way. As well as the cross-party work that is being done, there is a great deal of public sector and civic Scotland engagement on Scotland performs and the indicators that we work to. We are looking at aligning that with where are now. The NPF was due for a refresh, and that is happening.

With regard to how the NPF relates to the budget, all politicians in the Scottish Parliament will say that they are focused on outcomes rather than inputs, but when they go to the chamber, they have a rammy about the number of teachers, nurses, police officers and so on. That is politics. All politicians are a wee bit less focused on outcomes than we might expect.

Do we look at the Scotland performs regime? Yes, we do. It sets out the broad ambitions for our country, the themes within those ambitions and the indicators, and it identifies where more work is required through a traffic light system, which ministers and officials look at in coming to decisions.

There is not necessarily a true relationship between performance figures and spending figures, because there is also the question of political choice. Someone could say that, because crime is at a 43-year low and all the targets in that area are being met, less money should be spent there and more money should be spent elsewhere, but politicians will not necessarily make that choice. We look at the NPF, which guides much of our thinking, but our approach is not formulaic, in the sense that what the NPF shows does not automatically lead to particular spending decisions. The framework is being reviewed right now on a cross-party, cross-sector basis.

Ivan McKee: It is good to hear that. I hope that, in future, we will be able to spend more time talking about what has been delivered rather than simply knocking spending numbers back and forth.

The Convener: We turn to the general structure of the budget in the future. Willie Coffey wants to ask about preventative spend and three-year budgets.

Willie Coffey: The Aberdeen Council of Voluntary Organisations and other organisations that took part in this morning's workshops asked about how the budget works and whether the potential exists for a move to multiyear budgeting, which you mentioned in the context of non-domestic rates. The ACVO feels that multiyear budgeting would give more stability to the voluntary sector and others. The way in which funding is provided at the moment has an impact on the opportunities that the ACVO can provide for training and skills development. The provision of annual funding makes it much harder to deliver such opportunities. What are your flexibilities—and constraints—in moving to budgeting on a multiyear basis? What might be the advantages of such a move?

Derek Mackay: I recognise the concern and the criticism. I totally understand that it would be better for everyone in the public sector if they were able to plan on a multiyear basis. That applies to me, too, because 60 per cent of revenue decisions are in UK Government, not Scottish Government, hands, and we are all subject to economic shocks. Therefore, without my having absolute certainty in the resource that I will have available to propose to Parliament, I am in a challenging position, too.

This year's budget variance could have been hundreds of millions of pounds either way—that is, it could have been negative or positive. That variance and uncertainty are a challenge to me. Would I like to have multiyear budgeting? Yes. Do I see the value in it for all those involved? Yes, I do. However, it is not true to say that everything has a one-year determination. As a member of a minority Government, I would love an Opposition party to say that it will vote for our budget not just this year, but every year for the rest of our term. That sounds pretty good to me; it would give us certainty. However, in truth, we are unable to lock down every figure because of the determinants that are not in our control.

Having said all that, I have proposed multiyear settlements for some areas where I have been able to do that. Housing is an example. I recognise that houses cannot be built without the certainty of a multiyear settlement. Childcare delivery will also receive a multiyear settlement. That will not start this year, because we are still discussing and agreeing the figures with local government, but that is our intention. We will also have a multiyear settlement for culture, because we recognise the pressure—we have all heard about and felt it—as a result of the downward trajectory of lottery income. I have made a commitment to try to make up that loss.

I have tried to be helpful in a number of areas without locking down all the figures and making them so inflexible that the budget would have no room for manoeuvre. However, as I said, I truly understand and appreciate the desire for multiyear budgeting.

The Convener: We will move on to public sector pay.

James Kelly: You have outlined the pay policy, cabinet secretary. How much is included in the budget to cover the costs of that?

Derek Mackay: Pay policy is traditionally dealt with as part of the overall portfolio spend settlement, so resource is not usually set aside for that purpose. The pay policy that has been arrived at is deemed to be affordable by those portfolios, so I do not have a separate allocation for it—it is all part of the overall budget settlement.

James Kelly: When you worked out the pay policy, you did not work out the cost that was linked to it.

Derek Mackay: I will give the member the cost if no change was made this year to the pay policy that I propose, if that would be of assistance. However, I am making the point that there is not a separate part of the budget for pay policy.

The proposal for pay increases of 2 and 3 per cent for those who are covered by our pay policy—that is, staff in public bodies and Scottish Government staff—will cost £138 million. That pay policy will become the benchmark for other bodies that we do not direct. That is an important point to bear in mind. There may be a question about why the figure is not as high as people had assumed that it would be, but, as I say, the increase covers only those who come under our pay policy.

James Kelly: I understand the different responsibilities. I will take local government pay policy as an example, although I understand that you are not directly responsible for that. Previously, there were funding settlements of 1 per cent. We have a table from SPICe that includes estimates for local government employees, police officers, firefighters and so on. The cost of moving to the pay policy that you outlined would be an additional £100 million for local government. Was that taken account of when you calculated the local government settlement?

Derek Mackay: Yes. Certainly, local government raised the issue during the negotiations. I will answer any question that the committee wants to ask me, but sometimes it is unfair to quote others. The question for me from local government was about being mindful of public sector pay policy when I determine Scottish Government pay policy and the financial settlement.

James Kelly: So you are saying that the additional money that is required for the uplift is included in the local government settlement.

Derek Mackay: I did not set out a specific allocation for local government pay as part of the settlement, with the exception of teachers' pay, given that the Scottish Government is involved in the tripartite negotiations. That helped to ensure that there was a deal to continue the delivery of education and to resolve that particular dispute. I would not ordinarily set out an allocation for pay in the local government settlement. I have seen commentary from one council leader that suggests that they believe that that can deliver a 3 per cent pay policy, if they want to embark on that. That is a matter for each council leader and for local government. It is certainly not for me to direct local government's pay policy.

James Kelly: Is it not the case, then, that you have set out a pay policy but have not funded it?

Derek Mackay: I have set out a pay policy for the Scottish Government that becomes the benchmark for the NHS. I have made very clear commitments around the NHS. I do not set out a pay policy for local government. It is for local government, with the settlement that it has, to negotiate with the trade unions what the pay increase will look like.

Patrick Harvie: After the Government confirmed some months ago that it would lift the 1 per cent pay cap, different forms of words were used in the run-up to the publication of the draft budget to describe exactly what the Government intended to do. Your parliamentary liaison officer said on national television that the pay settlement should be at least at the level of inflation, and both you and the First Minister said in the chamber that a pay settlement should take account of the rising cost of living or inflation. Do you acknowledge that that was not achieved in the pay policy that you published alongside the draft budget, and that everybody in the public sector under that policy, including those who are directly affected, will continue to see real-term cuts in their pay?

Derek Mackay: I believe that the policy has achieved what I set out to achieve. It is good to hear that my position in that regard is aligned with that of the First Minister. It was about taking account of inflation, considering overall affordability and lifting the pay cap, and I believe that that is what I have delivered.

Patrick Harvie: But 3 per cent and 2 per cent are both below inflation.

Derek Mackay: I have set out a progressive pay policy, just as we have a progressive tax policy. We have decided to have a 3 per cent increase for those earning up to £30,000 a year and a 2 per cent increase for those earning above that, and to retain our positions on supported measures for low pay, no compulsory redundancies and capping increases at the top as well. That is in line with lifting the pay cap and having a more progressive pay policy.

Patrick Harvie: You would accept, though, that it is a matter of fact that 3 per cent is below inflation and therefore a real-terms cut.

Derek Mackay: It is below the current rate of 3.1 per cent for the consumer prices index, which is expected to come into line at 3 per cent—the forecasts suggest that it will be back at 3 per cent. If so, the award for those earning up to £30,000 a year will match inflation. That award will then achieve what I said it would: it will lift the pay cap.

Patrick Harvie: On the cut-off at £30,000 between the increases of 3 per cent and 2 per cent, you mentioned that the Scottish Government has a role in relation to negotiations with teachers. Obviously, the process is on-going and we do not know what the result will be, but do you anticipate that the principle of having a cut-off at £30,000 will be acceptable to teachers? Is it consistent with the Government's emphasis on needing to address the problems with teacher recruitment and retention?

Derek Mackay: There is further support in addition to the base policy on progression. Do I think that the current proposition satisfies the Educational Institute of Scotland, the teachers representative body? To answer that honestly, it appears from the public commentary that it does not.

Patrick Harvie: Can you understand why it would not?

Derek Mackay: Of course I can understand why those who work in public services and who have had years of pay restraint might want more.

Patrick Harvie: Does the Government intend to respond to their call for a restoration in the value—not necessarily in one year—of their pay?

The Convener: I am not sure that the cabinet secretary can negotiate a pay deal with the EIS in front of the Finance and Constitution Committee.

14:45

Derek Mackay: The years of pay restraint helped to ensure that we did not have compulsory redundancies—we still had a clear divergence from the UK Government policy, in that we had no compulsory redundancies, we had measures to tackle low pay, we were more progressive and we still allowed progression. Our pay policy enabled us to retain staff numbers in the public sector to a far greater extent than was the case south of the border or than might otherwise have been the case in Scotland.

I believe that we have delivered on our commitment. In comparison with previous years, we have created an enhanced pay policy. I have tried to quantify that for the committee. In the longer term, we would want to repair some of the inflationary impact on the take-home pay of staff. We want to take that direction of travel. In any event, we have to do it within the realms of affordability, and this year's departure from previous policy should be welcomed.

Patrick Harvie: I have a specific question on capital. There was some discussion earlier about the financial transactions. None of us would expect you to answer in detail about exactly what all of that will be used for just yet, but there is a substantial capital budget in the draft budget and there is a lack of specific information about the projects that that covers.

In particular, I am interested in the climate and carbon governance of the capital pipeline. The Scottish Government is aware of the call from the low-carbon infrastructure task force on the need for 70 per cent of infrastructure spending to be on low carbon. We are substantially below that figure in Scotland at the moment. What do the proposals for capital spending in the draft budget do to the figure on low-carbon infrastructure? What are we at and are we going up or down? What level of detailed information is publicly available on the capital pipeline as it stands?

Derek Mackay: There is reporting to the Public Audit and Post-legislative Scrutiny Committee every six months: the committee receives information in respect of auditing those plans. The infrastructure investment plan, which is updated periodically, outlines the Government's overall investment plans. The draft budget is seeking approval for one year's investment and expenditure in the capital plan.

On sustainability, we are doubling the figure for active travel from £40 million to £80 million. I want further analysis to be done on low carbon. However, the budget represents a step in the transition to a low-carbon economy in respect of transport. The committee will be aware that there are specific issues around rail funding for the next control period from 2019 onwards, but, overall, there is a greater contribution to the journey to low carbon—if you will pardon the pun. I am happy to share more about that approach with the committee as it is developed.

Patrick Harvie: Are you saying that the draft budget for 2018-19 increases the proportion of the capital spend that goes to low carbon? If so, to what level is it increased?

Derek Mackay: I believe that there is an increase and I would be happy to provide the committee with more information if we are able to analyse that in a way that we can all agree on. The budget has its own environmental impact assessment, but that is really about the procurement of goods in a particular year as a consequence of the budget position.

Patrick Harvie: The carbon assessment of the budget does not go into any detail on the capital element. What are the projects that are being funded under the capital budget for the current financial year and what are the carbon implications of those?

Derek Mackay: I am happy to engage with the committee on that and to provide further information. I was pointing out that the accountability for spend on infrastructure is reported to another committee. In order to give the committee satisfaction, I will do further work on carbon assessment and present that to you.

The Convener: Cabinet secretary, you have committed to write to us further on a couple of areas raised by Adam Tomkins and Patrick Harvie.

I thank the members of the public, those from the business community and those representing organisations who came along to our workshop sessions this morning and contributed to a valuable piece of work. I thank members of the committee for their contributions throughout the day. I thank the cabinet secretary for attending today's committee meeting in Aberdeen. I also thank Aberdeen City Council for allowing us to use its magnificent building.

Did anyone see the remarkably imposing picture of Henry Rae, who was the lord provost between 1984 and 1988? He must have occupied this very seat at some stage. It is a magnificent picture, but I am glad that I have not needed to be as formidable as he so clearly was.

Meeting closed at 14:49.

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

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