



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Finance and Constitution Committee

**Wednesday 12 June 2019**

**Session 5**



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**FINANCE AND CONSTITUTION COMMITTEE**

**14<sup>th</sup> Meeting 2019, Session 5**

**CONVENER**

\*Bruce Crawford (Stirling) (SNP)

**DEPUTY CONVENER**

\*Adam Tomkins (Glasgow) (Con)

**COMMITTEE MEMBERS**

\*Tom Arthur (Renfrewshire South) (SNP)

Neil Bibby (West Scotland) (Lab)

\*Alexander Burnett (Aberdeenshire West) (Con)

\*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)

\*Angela Constance (Almond Valley) (SNP)

\*Murdo Fraser (Mid Scotland and Fife) (Con)

\*Emma Harper (South Scotland) (SNP)

\*Patrick Harvie (Glasgow) (Green)

\*James Kelly (Glasgow) (Lab)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Dugald Craig (Colleges Partnership)

Kate Forbes (Minister for Public Finance and Digital Economy)

Daniel Hinze (Scottish Government)

Ross Johnston (Scottish Natural Heritage)

Susan Love (Federation of Small Business)

Derek Mackay (Cabinet Secretary for Finance, Economy and Fair Work)

Ruchir Shah (Scottish Council for Voluntary Organisations)

Kate Still (Prince's Trust on behalf of the Young People's Consortium)

Nora Uhrig (Equality and Human Rights Commission)

**CLERK TO THE COMMITTEE**

James Johnston

**LOCATION**

The David Livingstone Room (CR6)



# Scottish Parliament

## Finance and Constitution Committee

Wednesday 12 June 2019

*[The Convener opened the meeting at 09:30]*

### Medium-term Financial Strategy

**The Convener (Bruce Crawford):** Good morning, and welcome to the Finance and Constitution Committee's 14th meeting in 2019. I give members the usual message about turning off our mobile phones.

Agenda item 1 is evidence on the Scottish Government's medium-term financial strategy from Derek Mackay, the Cabinet Secretary for Finance, Economy and Fair Work. Mr Mackay is joined by Scottish Government officials Lucy O'Carroll and Daniel Hinze. I welcome our witnesses to the meeting and invite the cabinet secretary to make an opening statement if he wishes to do so.

**The Cabinet Secretary for Finance, Economy and Fair Work (Derek Mackay):** Thank you, convener. I will be brief. The MTFs will help the committee and others to scrutinise Scottish Government budget planning by setting out the very real limits to our funding, clearly laying out the consequences of the United Kingdom Government's choices on Brexit, austerity and our public finances and providing a clear picture of the impact of the fiscal framework on future Scottish budgets. Alongside the latest economic and fiscal forecasts, it sets out a framework for the Scottish Government's spending review, as well as the fiscal principles and policies that will guide the use of our borrowing and reserve powers.

In line with the written agreement between the Scottish Government and the committee, the MTFs sets out the economic and political context for the spending review, the criteria that will govern the assessment of budgets and the process and timetable for review. Irrespective of the UK Government's decisions about its spending review, we plan to undertake a review of spending in 2019 to beyond 2020-21, with a focus on addressing Scotland's long-term challenges, notably climate change and child poverty.

I welcome questions from the committee.

**The Convener:** Thank you for that short opening statement, cabinet secretary. The Scottish Fiscal Commission has told the committee that, next year, as part of the first income tax reconciliation, we can expect a reduction of £229 million in the Scottish budget. It

has also informed us of further potential reductions in income tax because of reconciliations in future years, which, if its forecasts prove to be accurate, will amount to £608 million in 2021-22 and £188 million in 2022-23. The commission has told us, quite pointedly, that the Scottish Government will have to adjust its spending plans or increase taxes to deal with the forecast reductions. Therefore, I think that it is fair to ask you whether you think that those figures are accurate. How does the Scottish Government intend to manage what appears to be a very challenging picture?

**Derek Mackay:** Convener, I will answer that question in three parts, addressing the accuracy of the figures, how the commission has arrived at them and how we manage reconciliations, which is the right question to pose.

Our budget and the resources that we deal with are, of course, driven by the SFC's and the Office for Budget Responsibility's numbers. I have looked very closely at the SFC's report—as members would expect me to do, since it informs the MTFs—and also at the evidence that it has given to the committee on the accuracy of the figures and its explanation of them.

It is important to point out that some people confuse forward forecasts with specific reconciliations. It does feel perverse that, when income tax is rising, overall tax take is up, gross domestic product is performing positively, unemployment is low and earnings growth has been increasing, we will have negative reconciliations over three years, as you have described, convener. However, that is down to relative forecast accuracy, as the Scottish Fiscal Commission has explained. It has said that its forecast error was "inevitable". In new information that has appeared in the course of its giving evidence to the committee, it has also said that the average absolute forecast error could be around £500 million a year, positive or negative. The figures must therefore be seen in that context.

On the forecast errors, I note that we are dealing with two different forecasters that have two different methodologies and two different sets of assumptions. We then arrive at the figures on outturn. As we get more outturn data, we will have the exact figures. At present, the figures are still forecasts, but we will have the outturn data for the first financial year in July.

The SFC's commentary and analysis says that the reconciliation is not about the performance of the UK or Scottish economy but about the accuracy of the forecasts. That is what this is about—the accuracy of the forecasts, which are reconciled on outturn. The explanation for that is given by the SFC, and we follow its analysis. Although an increase in income tax is forecast for Scotland, there is a block grant adjustment, and

the income tax in the rest of the UK has increased by more than the income tax in Scotland, making our net position worse than was forecast. Of course, at the next fiscal event, we will get further updates to the forecast.

Beneath that, there has been stronger-than-expected growth in UK receipts, which was not forecast by the OBR, and that explains the divergence in the figures from the OBR and the SFC. What they are not sure about is whether that is a distributional or a cyclical issue. The SFC has pointed out that the negative reconciliations may well be followed by positive ones. I have read in the *Official Report* the commentary that it gave to the committee, and I note that, to explain why it believes that that has happened, it said:

“the rest of the UK has a higher concentration of higher-rate taxpayers and ... the recent growth in UK income tax revenue has been concentrated among them.”—[*Official Report, Finance and Constitution Committee*, 5 June 2019; c 5.]

From my point of view, that has increased the inequality in the rest of the UK between higher-rate taxpayers and others. As responsible forecasters, the SFC and the OBR will look at the outturn data, and their analysis of that data will inform future forecasts with a deeper understanding of the tax composition in Scotland that is based not on estimate but on fact.

That is the explanation of how the position has arisen, and I will now turn to what we are going to do about it. I think that it is prudent and fiscally responsible for me to assume that the reconciliations are right, although there will be further amendments, and work through the consequences of that.

The Fraser of Allander institute has said that many factors that are materially significant to Scotland's economy are outwith our control. Those include the contributions of oil and gas to the economy, migration, Brexit and other matters. However, as we look at the potential reconciliations, the tools that we will have to manage the position will include the resources that are available at the time. We should bear in mind that, although we have the ability to draw down from the reserve and we have the borrowing powers, as is set out in the MTFs, the majority of funding will still come from the block grant and the Barnett consequentials. They are still significant to Scotland's budget, as are UK fiscal policy and UK tax policy as they relate to Scottish tax policy. Those things will be determinants of the resources that we will have available. We also have resource borrowing of up to £300 million available, and we can draw down from the reserve to manage the reconciliation on the scale that has been set out.

A range of factors will have an impact. Those include the block grant, Brexit, austerity and, in

relation to future resources, the tax policy of the UK Government, because that will determine the resources that we will have under the fiscal framework. We will also have the forward look. All of those will set the context in which I will manage the reconciliations as part of the budget process—which I will, of course, explain at budget time. I do not think that it would have been right to set out individual scenarios. I know that there has been some criticism of that and some comment on how I could have done that. However, I have set out the principles that I would deploy in using the borrowing reserve.

Politics changes from day to day, and the UK Government's tax position is very likely to change. One of the Tory party leadership contenders will ultimately become Prime Minister, and whatever tax policy they have will be materially significant to the fiscal framework and the relative position for us in terms of tax.

I will take a prudent, fiscally responsible approach to managing the substantial reconciliations. That is not helped, of course, by the Brexit uncertainty. However, that is the explanation on forecast accuracy, which is all that this is about; on how it has been explained by the SFC; and on what the Scottish Government will do to manage the process. I agree that the reconciliation that is required is quite substantial.

**The Convener:** The two things that the Fiscal Commission mentioned to us were adjusted spending plans and increased taxes, but you did not mention them in your comments, cabinet secretary.

**Derek Mackay:** That is because, in the much fuller explanation, we need to consider that what the Fiscal Commission does not know, what I do not know and what the UK Government does not know right now is what its budget will look like, whether it will have a spending review, whether it will use the fiscal headroom of £26.6 billion or what its tax policies will be. We need to bear in mind that the block grant, which is the largest determinant of Scotland's budget, is determined by the UK Government, which is in a volatile and uncertain financial position. Those matters are materially significant to the Scottish budget and will set the context for the other things that we do. How much revenue we raise will be determined by what UK tax policy is and what Scottish tax policy is—that is the point of the reconciliation in terms of tax.

We may have to look at spending as well as at all the other determinants in setting the Scottish budget. There are many unknowns around what the UK Government might do in its fiscal policy, which will drive much of Scottish fiscal policy and how we will respond, because of the nature of the fiscal framework.

**Adam Tomkins (Glasgow) (Con):** Good morning, cabinet secretary. We have in front of us a very stark set of forecasts from the Fiscal Commission. We know that they are only forecasts, but you have just said—and I agree with you—that the prudent thing to do is to assume that they are correct.

**Derek Mackay:** That is right.

**Adam Tomkins:** The prudent thing to do is to assume, for the purposes of our conversation this morning, that the forecasts are correct. The forecast is that you have a £1 billion black hole in your budget—

**Derek Mackay:** No.

**Adam Tomkins:** Let me ask the question, cabinet secretary. You have a £1 billion black hole in your budget, and the Fiscal Commission says that there is not enough in the Scottish reserve and your borrowing powers to cope with that. It says:

“this will mean the Scottish Government having to adjust its spending plans or increase taxes”.

Those are the Fiscal Commission’s words, not ours, and the prudent thing to do is to assume that that is correct.

When we turn to the medium-term financial strategy to discover what your spending plans are to cope with that £1 billion black hole or, indeed, what your proposed tax increases might be in a range of scenarios, we find absolutely nothing on either score. That homework was marked by the Fraser of Allander institute and you failed, did you not, cabinet secretary?

**Derek Mackay:** No. I think you will find that I have successfully passed three budgets in a row. I have balanced the books and I continue to do so in a fiscally responsible way. I have set out the principles that I will deploy so to do.

The economic indicators for Scotland right now are record low unemployment, on which Scotland is outperforming the rest of the United Kingdom at 3.3 per cent, whereas UK unemployment is higher; record employment; record export increases; and sustained GDP growth that is better than the SFC previously forecast. As I said, our exports are on the rise, outperforming exports from the rest of the United Kingdom, and our foreign direct investment is second only to London and the south-east of England. Income tax is rising and earnings growth is on the up in real terms. Those are strong economic indicators and foundations.

**Adam Tomkins:** You still have to find £1 billion, though.

**Derek Mackay:** I will turn to that specific question, but it is important to contextualise. I am being accused by the Conservatives of economic

mismanagement, which is somewhat hypocritical given the continuation of austerity and the Brexit chaos, which is impacting on the economy and, as the SFC has stated very clearly, will have a profound impact on the UK and Scottish economies.

On the £1 billion reconciliation, let us stick to the facts. The figures are driven by the SFC and the OBR, and they are reconciliations around not economic indicators but forecast error. The SFC has said that very clearly. Does it present a challenge to the Government and the Parliament? Of course, it does. Of course, I would prefer that I had £1 billion of positive reconciliations to make, but we have to work within the figures that are presented to us. Nevertheless, to describe the situation in the pejorative language that Mr Tomkins used is unfair. It disregards the past 15 minutes of evidence that I have given, saying that there is more to the Scottish budget than those income tax reconciliations—there are the financial envelope, the block grant and the other levers that we have around borrowing.

09:45

I accept that, at £608 million, the forecast reconciliation from income tax year 2018-19 that applies to budget year 2021-22 goes beyond what could be deployed through drawdown of reserves or the borrowing power that we have. Even if we maxed both of those, that would not reach £608 million. My point is that we have to consider all the levers—the totality of Scottish Government resources at the time—and we do not know what the block grant will be in the budget year 2021-22. A number of material considerations will come into play; therefore, it is not true that it will require just spending and tax adjustments. The main driver of the Scottish budget continues to be the block grant.

I made it very clear last year, in the medium-term financial strategy and costed policies, that I will be undertaking a spending review. The UK Government committed to undertaking a spending review, but it seems to be prevaricating on that. I have written to the chancellor and the Treasury, asking whether they are going ahead with the spending review, and I have not had a reply to my letter, which was dated April, I think. I know that there is uncertainty in the ranks of the UK Government at the moment, but it has not confirmed whether it will carry out that review, which will be important in giving us the necessary information for our spending review. There are no costed new policies because we will conduct a spending review and budget process to produce those. The MTFS is not meant to be a mini budget.

I read the Fraser of Allander institute's commentary with great interest. It has welcomed parts of the medium-term financial strategy, such as the principles, the approach to the spending review and the capital elements, for which I have given more detail of the borrowing requirements and the principles. The Fraser of Allander institute may be frustrated that I have not set out a full-scale spending review or costings of more policies, but I have not done so for the reasons that I have just given. What the MTFS does is contextualise the financial challenges that we face and the approach that I will take to address those challenges.

I reassure Mr Tomkins that I am taking the forecasts seriously. Those are the assumptions that we will be working to.

**Adam Tomkins:** We are some way through the looking glass if you think it is all rosy in the garden while we face a £1 billion black hole in those reconciliations, cabinet secretary. It is interesting that you say nothing in your medium-term financial strategy about growth below trend, about real earnings being lower now than they were a decade ago or about productivity lagging behind that of key competitors. Wherever we look in the medium-term financial strategy, it has been condemned as being not fit for purpose and failing to meet the tests that were set for it in the budget process review. Whether we look at what you say about economic and fiscal risks—particularly social security spending—or at spending priorities, it has been condemned not by the Conservative Party but by the Fraser of Allander institute.

Let us focus on just one element of the MTFS that is focused on in the SFC's comments, to which you have still not responded adequately, cabinet secretary. In contrast with last year's MTFS, this year you say nothing whatever about spending priorities. You say nothing about what areas will be prioritised and, in particular, nothing about your strategy for non-priority areas. Clearly, you will not want to share with the committee what your future tax policies will be, so what do you have to say about spending, particularly in non-priority areas, in order to address that potential £1 billion black hole?

**Derek Mackay:** I disagree with the premise of the question. The report that the SFC has produced, driven by the budget process review group, includes the financial forecasts over the five-year period, proposes a funding trajectory, includes the significant determinants, outlines the fiscal disputes that we have with the UK Government and sets out the principles for the spending review. The spending review is the point at which we will produce further costed policies, and we will then set out our priorities within those. We are also delivering on policy commitments that

the Government undertook in its manifesto. We are working our way through those.

Adam Tomkins raised some matters that he did not want me to address, but it is not fair of him to raise them and then refuse to allow me to address them. He was factually incorrect: real wage earnings and income tax take in Scotland are on the increase, and our economic performance is strong. Those things are all threatened by Brexit. Mr Tomkins is shaking his head.

**Adam Tomkins:** They are threatened by the performance of the rest of the UK.

**Derek Mackay:** I am sorry, Mr Tomkins, but where does the SFC report say what you are saying? Nowhere. The SFC says very clearly in its report that it is the threat of Brexit that is impacting and subduing our economic performance—nothing else. There are key factors: population and productivity are areas for us to focus on, although some of that is outwith our control. That is what the SFC's report says. Rather than complaining about what is not in the report, perhaps Mr Tomkins should have read it. He would then have been better informed for this morning's questions.

**James Kelly (Glasgow) (Lab):** Cabinet secretary, in your answers to the convener's opening questions you accepted the position that is set out on page 46 of the medium-term financial strategy of a £1.025 billion gap between what is set in budgets and what is forecast in future revenue and block grant adjustments. The scale of the problem is stark. It is surprising that there is no detail in the document about how that will be dealt with.

In the cabinet secretary's constituency, in the Renfrew South and Gallowhill ward, child poverty is at 35 per cent. I know that that will concern the cabinet secretary greatly. However, it is galling that although the document has a reference to reaching outcomes on child poverty, there is no assessment of the fact that there is a £1 billion forecast gap and no mention of how that will be dealt with to address the unacceptable levels of child poverty, not only in Renfrew but throughout Scotland.

**Derek Mackay:** The document covers the medium-term financial strategy. Last year it had costed policies. We will take policies from budget to budget. The Cabinet Secretary for Communities and Local Government will make a statement on the child poverty targets in June and there will be far more detailed analysis and debate on child poverty specifically at that point.

The MTFS is not meant to be a comprehensive spending review or mini budget, rather it sets out the medium-term strategy and latest forecasts. We must not confuse the child poverty targets, actions and policies with the medium-term financial



strategy. As I said in setting out the principles for the spending review, I look forward to making child poverty a priority in the Government's spending plans. I believe that we have used the tax and spending regime in a progressive and fair way.

On the tax forecast, from memory I believe that only one member of the Finance and Constitution Committee said that I should depart from the SFC forecast—I believe that it was James Kelly. It is just as well that I did not depart from the SFC forecast, because that would have compounded the issue of a £1 billion reconciliation.

I have said in answer to your question, convener, and to Adam Tomkins that we assume that those figures are correct for the purpose of having a plan to work our way through the reconciliations with the various tools at our disposal. However, it speaks to the inadequacy of the fiscal framework in dealing with that scale of reconciliation. If it is true to say that there will be a pattern of negative reconciliation and if it is true to say—as the Fiscal Commission has done through new information—that the absolute error of potential could be £500 million a year, that shows the inadequacy of the resource borrowing powers and the ability to draw down, with all the other complications and the welfare powers.

However, no matter what happens, I will balance the books and give Parliament a fiscally prudent and responsible budget every year, by targeting spending in a progressive way through tackling child poverty and promoting sustainable economic growth. I am sure that that will reassure Mr Kelly. Contrary to what Mr Kelly said in the press this morning, the reconciliation numbers are down to forecast error by the forecasters, not Government economic policy.

**James Kelly:** In relation to the new budget approach that we are all now following, the whole point of a medium-term financial strategy is not only to produce and note the numbers, but to assess their implications. The document that you have produced completely fails to do that. It is not fit for purpose, so would it not be better to rewrite the document so that it can better inform committee members and other politicians throughout the Scottish Parliament of the issues that we face?

**Derek Mackay:** I struggle to take lectures from the Labour Party, which has not produced competent budgets during my time as finance secretary. My medium-term financial strategy sets out the principles that we will deploy, the financial scenarios that we face, the issues that will determine the Scottish budget and the approach that we will take to tackle the reconciliation. Further to the medium-term financial strategy, I am giving evidence to the committee this morning on how I intend to approach those issues, including

the reconciliation. There is a lot of detail in the medium-term financial strategy.

The Labour Party cannot produce competent budgets and I cannot follow the approach of the prospective Prime Minister, Boris Johnson, whose tax plans do not last five minutes. That is compared with the enduring nature of our fiscal forecasts and budget approach. Our strategy includes the necessary information, and I am happy to take questions on it. That is why I am here.

**Tom Arthur (Renfrewshire South) (SNP):** I want to bring you back to a figure that you shared earlier on the fiscal headroom. Will you confirm that the figure is £26.6 billion?

**Derek Mackay:** That is correct.

**Tom Arthur:** The figure is, in effect, the UK Government's Brexit piggy bank that is to be smashed open in the event of our hurtling over the cliff after a no-deal Brexit.

**Derek Mackay:** In essence, it is the sum that the chancellor could deploy while keeping within his fiscal targets, but he has chosen to hold back that spending. At first, he said that he was holding it back in the event of a deal, and he has also said that it might be required to deal with the Brexit catastrophe. There are few areas on which I agree with the Treasury, but I agree that its warnings show that a no-deal Brexit would have a catastrophic effect on the UK and Scottish economies. Therefore, the chancellor might deploy the money to deal with that.

The Scottish Government has argued that the resource should be deployed now to end austerity, which would mean real new investment in the economy. Some people go as far as saying that, if the money from the fiscal headroom was deployed, it would end austerity. Instead, it might be used as a bandage for Brexit, and who knows what a new Prime Minister might do? They might use the money as some form of bribe to the electorate. Some people might want to use it to fund tax cuts for the richest in society—although Boris Johnson seems to be in reverse gear.

We have proposed that the money be deployed to end austerity by investing in our public services and the people of our country.

**Tom Arthur:** Indeed. I raise the matter because there has been some interest in the committee in a potential £1 billion reconciliation. On the basis of Scotland's population, our share of the £26.6 billion works out at about £2.1 billion. What impact would that money have on the Scottish budget? What material change could it make to public services and the lives of the people of Scotland?

**Derek Mackay:** That speaks to the point that I made earlier. If the money was Barnettised as part

of the block grant, we would receive that resource. The limitations on us relate to the block grant, as well as to our borrowing power and the drawdown. Mr Arthur can count and has indicated that, if our share was more than the income tax reconciliation that is required, we would have that extra resource. That would be the impact.

We have had on-going austerity from the UK Government. If it started to deliver the money from the fiscal headroom, the money could have a positively transformational effect by undoing some of the damage that the UK Government has done over the past number of years. As well as the money going to the devolved Administrations, it could be spent on social security, given the particularly punitive and pernicious attacks on some of the most vulnerable people in our society. That is why it is perverse to say that, if that fiscal headroom is to be increased, it should be increased for higher-rate taxpayers. It should be for delivering better-quality public services and making a substantial difference to Scotland's fiscal position. The exact amount that Scotland would receive would depend on how the money is spent by departments and then Barnettised.

10:00

**Tom Arthur:** Would it be fair to say that, rather than hypothetical black holes around future reconciliations, the real black hole in Scotland's budget has been caused by the UK Government and austerity holding back that resource?

**Derek Mackay:** My views on austerity are well recorded and I am constantly sparring with the Conservative members of the committee on that. Austerity has subdued the economy. That is why the UK has among the lowest GDP growth rates in Europe. Austerity has subdued the economy, impacted on services and society and made inequality worse. Of course, I would welcome it if that fiscal headroom was released to invest positively in our country, and Scotland would get a share of that.

If we got a share of the Northern Ireland bung, that would suit Scotland to the tune of £3.3 billion. You can see how those multibillion figures are stacking up—the fiscal headroom and the contribution that Northern Ireland got but which Scotland did not. Those are substantial figures. We are not talking about tens of millions of pounds; we are talking about Scotland losing out on billions of pounds.

**Tom Arthur:** That adds up to almost half the national health service budget.

**The Convener:** This will be your final question, Tom.

**Tom Arthur:** Thank you, convener.

My final question is about the fiscal framework. One of the key drivers for difference in performance regarding higher earners in the Scottish and UK economies, and perhaps more generally, is population growth. Ultimately, we will be at the mercy of population growth, especially growth in the working-age population. Is it fair that that can have such an impact on the money that will be made available to Scotland via the fiscal framework given that we have no power over immigration to combat the Tories' hostile environment, which can put people off wanting to come and work in this country?

**Derek Mackay:** When it was asked about the comparison to the OBR UK forecasts, the SFC said:

"We are forecasting a weaker economic outlook for Scotland compared to the OBR's forecast for the UK. This is primarily because of slower growth in population and productivity in Scotland than in the UK."

Of course, we do not control population although we would like to. We would like to have more powers around migration, because it is having an impact. When you look at the structure of the economy and the population, you can see that a shrinking working-age population and a lower number of people paying taxes have a disproportionate effect on Scotland. That is materially significant to the Scottish Government's budget and it affects our tax revenues, so it is a structural issue.

We said that we would revisit the fiscal framework after one full parliamentary session of evidence and operation. However, if we look at the levels of reconciliation, some of the factors that are outwith our control and some of the new information on average forecast error and what might be a structural issue around higher-rate taxpayers and deepening inequality in the rest of the UK, we might want to consider revisiting the fiscal framework earlier, as well as the other concerns that I have raised around VAT and air departure tax. That is all adding complexity and volatility to a situation that I think all members are concerned about.

**The Convener:** Cabinet secretary, you raised the issue of the fiscal framework. I know that Patrick Harvie is interested in that. Is your question a supplementary or is it on a separate point, Angela?

**Angela Constance (Almond Valley) (SNP):** I have two questions: one on Brexit and one on child poverty.

**The Convener:** In that case, we will go to Patrick Harvie.

**Angela Constance:** That is fine.

**Patrick Harvie (Glasgow) (Green):** I will follow on a little bit and then link to the longer-term issues about the fiscal framework.

Notwithstanding the fact that we do not know what the UK Government will do, we know that there is a real chance that the next couple of budgets will have to absorb a substantial impact from the result of a reconciliation. I agree with some of the criticisms that have been made of the medium-term financial strategy, which sets out an analysis of why we are where we are but does not really say what we are going to do about it, which is what a strategy ought to do.

However, there should also be a political strategy associated with this, because the Government will still be a minority Government in the run-up to those two potentially challenging budgets. If you are in a position of trying to figure out how to do stuff that you do not want to do—stuff that none of us would want to do—as a result of challenging circumstances, how will you set out a Government approach to achieving wider buy-in for responding to those challenges, not just from within the political spectrum but beyond? If this is just a matter of Opposition politicians shouting, “You’ve failed your homework” and you shouting, “I’ll take no lessons from you”, we will get nowhere. How will you achieve wider buy-in to the potentially challenging decisions that you might find yourself forced to propose to Parliament?

**Derek Mackay:** Patrick Harvie raises a fair question. In fairness, it is not a question for just the finance secretary—I am one of 129 MSPs, and all MSPs will have to behave responsibly and carefully consider our collective priorities.

On the question of how I propose to make headway, one of the areas that I touched on was the spending review. We will set out our policy priorities—I mentioned child poverty and climate change as examples—and find out where the collective priorities are in Parliament, so that the parliamentary arithmetic will allow a budget to pass in challenging circumstances.

It is not fair to say—as Patrick Harvie did—that we should discount the block grant; that is, and will continue to be, the largest component of the Scottish budget. We cannot therefore discount it and scenario plan everything else.

**Patrick Harvie:** I am not suggesting that we should discount it.

**Derek Mackay:** We have outlined a range of scenarios, including an upper assumption and a lower assumption for the overall financial envelope within which we think we will be working, and levels of probability around that. However, fundamentally, all those other factors are materially significant for the budget that we will set.

As I have always tried to do, I will take an inclusive and engaging approach to the budget, so that we can agree on priorities. Although there will be challenging reconciliations, for the reasons that we have discussed this morning, they are not the only fiscal factors that determine the budget or the overall financial envelope. I agree with Patrick Harvie that the Parliament also has to mature and recognise that it is not about just throwing about accusations as to who is responsible for the Fiscal Commission’s forecast error—because, actually, the Fiscal Commission is responsible for its forecast error. We, as a Parliament, are responsible for passing a budget, and I am responsible for the Government’s finances and for proposing that budget. I have delivered balanced budgets, and I intend to continue to do so.

When we approach the budget, we will set out our spending priorities and how we propose to tackle the reconciliations in each year. However, that will draw all our attention to considering further fiscal discipline and ensuring that we are getting value for money, as well as using the borrowing powers and the drawdown in a responsible way.

**Patrick Harvie:** You mentioned the spending review. Are you fully committed to that spending review taking place, regardless of whether the UK Government does one?

**Derek Mackay:** It depends on how much information the UK Government gives us. If it gives us absolutely nothing, it would be very difficult to set out a comprehensive and credible spending review for the Scottish Government—it would be more illustrative than credible.

**Patrick Harvie:** Irrespective of the UK Government’s decision about its spending review, does the Scottish Government plan to hold a multiyear review of spending?

**Derek Mackay:** The medium-term financial strategy report goes on to say that it will be determined by the information that the UK Government makes available. In any event, because it is the right thing to do, I intend to focus on our spending commitments and priorities, and on issues such as cross-departmental expenditure, outcomes and wellbeing. We might also be able to set out multiyear spending on capital. Although it is my intention to do a spending review, I am sure that all members understand that it is easier to do that if the UK Government is conducting the equivalent spending review, because it influences so many of our numbers.

**Patrick Harvie:** I will move on to the longer-term future of the fiscal framework, of which a review is due in the coming years. If I understand the process for that correctly, if it is to be delivered

after the 2021 election, the work on a report to advise both Governments will probably have to begin—or at least be framed—in the next year.

It seems that the fiscal framework that was arrived at between the two Governments—some of us expressed concerns about it at the time that it was being presented—has put Scotland in the position of having partial fiscal autonomy for double the uncertainty. That uncertainty is coming from not one set of fiscal forecasts, but—as the cabinet secretary said earlier—from two: two different methodologies by two different organisations. Any normal Government would have some uncertainty from its set of forecasts, but it would be able to manage that with greater fiscal autonomy. We seem to have half the autonomy for double the risk. Is that something that we got wrong with the fiscal framework, and does the way that it is reviewed need to be addressed?

**Derek Mackay:** I have a lot of sympathy with that analysis, especially as I am the person who is responsible for making the system work. As it happens, I had a meeting yesterday with the Organisation for Economic Co-operation and Development, which is conducting a review of the Fiscal Commission's functions. The OECD will produce a report, which I am sure will be made available.

Frankly, independence has to be easier than the fiscal framework as a way of running a country's finances. It would also give us more levers and powers to deliver a more successful nation. However, the framework is based on the political agreement of the time. It is complex and involves volatility and uncertainty, with a lot of unforeseen consequences. The Brexit outcome was not anticipated, and it is having an impact.

On some of the procedural and technical issues, again, new information has emerged. The resource borrowing power is capped at £300 million and there is an overall borrowing limit. There are good reasons for having parameters for that capacity but, if the average potential forecast error is £500 million a year, that shows that the current parameters of the fiscal framework are increasingly inadequate as we get new information and as delivery of the Smith agreement unfolds. If we add to that uncertainty my concerns about VAT and the legal issues with air departure tax, that shows that we need an engaged UK Government to make the necessary corrections. We are trying to abide with the agreement on the fiscal framework review and the timescales for it, but that is clearly proving to be challenging.

To be fair to the Treasury, there has been some accommodation. For example, that happened with the baseline for the starting position on income tax, which was a very technical issue. However,

key principles are being challenged as the fiscal framework operates. I therefore have a great deal of sympathy with what Mr Harvie says, and I intend to raise those issues further with the Treasury. We are dealing with a volatile situation and an uncertain level of risk.

**Patrick Harvie:** It is a fair guess that one of the losing Tory leadership contenders will end up as the next chancellor. Does any of them strike you as being up for that discussion in a constructive spirit?

**The Convener:** I would love you to answer that, cabinet secretary, but I want to move on. Mr Harvie has made his point.

**Patrick Harvie:** That is more than fair enough.

**Angela Constance:** Obviously, I will follow closely how the Government takes forward its commitment to tackling child poverty—as will other members, as we would expect. I am among those who complain loudly about the limitations of devolution and the fiscal framework. In short, it is a bit of a dog's dinner, and I do not know of any country in the world that has a remotely comparable arrangement.

However, the bottom line is that, although Parliament has signed up to ending child poverty and has introduced statutory targets with very challenging interim targets, by 2023-24 total public spending will be £183 billion less than it would have been if it had remained on a par with 2010-11 spending. That is where we are starting from and that is the scale of the challenge, which we all share.

How will we have a discussion about our priorities, what we can and cannot do, and how to use the powers that we have to maximum effect? How do we have a grown-up discussion about what levers we could use better and what additional levers we need, so that we have, as a minimum, a more coherent package of powers that will make our lives a little easier in respect of tackling child poverty?

**Derek Mackay:** That is a good question, but I want to ensure that I heard you correctly on the figure on UK Government austerity. When we make the comparison, as we traditionally do, between investment levels at 2010-11 and those in 2023-24, which is the end of the forecast period, we find that we will have £18.3 billion less than we would have had if spending had remained at 2010-11 levels. That is the figure on austerity and the reduction.

With regard to on-going austerity, the issue is not just to do with the resources that the Scottish Government has available. We also need to bear in mind the wider impacts of policies on some people—those impacts are significant. The

policies include the benefits freeze, the two-child cap and the cash freeze on working-age benefits. Those UK policies are impacting on child poverty, and on poverty in general.

10:15

On what we can do about that, I have covered the MTFs and the financial disputes that I have with the UK Government—it could address extra resource needs. We need to focus on the national performance framework, which is about outcomes, and not just inputs. We need to align and calibrate our efforts around the sense of wellbeing and outcomes that we are trying to achieve, as a country. Of course, people will then say that what is spent in those areas is important, and will judge people by their spending commitments, so the spending review will also set out the areas where we want to focus on outcomes. That focus will expressly and explicitly include child poverty.

As I engage with Cabinet colleagues on the spending review, I will, of course, ask the SFC what we are contributing to sustainable economic growth, but I will also ask about child poverty, specifically.

When we look at spending in the areas in which we have social security powers, we can see that, over the forecast period, it will reach a peak of £3.5 billion. There might be further volatility. If we are saying that we will have a system that is based on dignity and respect—many of our payments will be more generous than the analogous payments from the UK Government—we will invest in that, and we will do so specifically in relation to child poverty targets.

I think that the Cabinet Secretary for Communities and Local Government will—there is certainly a report on this—be making a statement to Parliament on the targets for child poverty, assessment of those targets and what more we will do to address them. We will look at the affordability and deliverability of social security policies, too.

We will look at all policies in the round in order to address child poverty, recognising that some are financial and some are non-financial. Child poverty will be foremost in our minds, as we look at future budgets and the overall spending review.

I hope that that is of assistance.

**Angela Constance:** I am glad that the finance secretary corrected my figure.

I will move on to Brexit. My question is similar to the previous one on powers, options and limitations. We know that the Scottish Fiscal Commission has based its position on there being an orderly Brexit—whatever that is. It said in evidence to us last week that the probability of an

orderly exit has reduced, and that the probability of a no-deal Brexit has increased. What happens if we crash out without a deal? What will be the impact on your work? What are you doing about it? What could you do? What thought have you given to where your priorities will be? Would having increased borrowing powers help? I know that there has been some discussion and thought from the Scottish Futures Trust on other finance models, including on the mutual investment model that the Welsh use. You must have in your head the priorities in which having increased powers would help.

**Derek Mackay:** Brexit is, I think, a deep concern for us all. Any form of Brexit will damage the economy and lead to lower economic growth, lower gross domestic product, lower earnings and higher unemployment.

The SFC report describes an orderly Brexit as some form of deal with transitional arrangements, which is why the forecasts are so subdued. It is true to say that, if there was no Brexit at all, the financial forecasts would have been far more positive, which would in turn have been good for our revenues, our economic health and achievement of our outcomes.

The Prime Minister tried and failed to get a Brexit with a deal—she has lost her job because she could not get that orderly Brexit through the Westminster Parliament. It seems that there is little prospect that an orderly Brexit will be delivered. It is politically pertinent to say that unless there is a change of leadership—and a change of heart in many people—it does not look as though any Tory contender will deliver where Theresa May has failed, but who knows? If there is an alternative deal, we would need to analyse it.

The no-deal Brexit that is in prospect would be economically catastrophic. The economic analysis of a no-deal Brexit includes unemployment soaring from its current record low of 3.3 per cent, with up to 100,000 people being made unemployed. There would be business failures and lower exports, GDP would collapse and the economy would go into recession, which would have a significant impact. All that has been factored into the Scottish Government's resilience thinking.

What, specifically, am I doing about it? As well as preparing as best we can for finance and the economy, we have contingency plans for the public sector. We have been working across the public and private sectors to produce those contingency plans. We have made resources available and we are considering the economic response in the event of a no-deal Brexit, because it would be economically so catastrophic. We have also been working with the banks, because access to finance would be an issue.

We are also looking at business support to try to mitigate the impact. However, no Scottish Government or Scottish Parliament can totally mitigate the impact of a no-deal Brexit which—also according to the SFC—now feels more likely.

I am testing the convener's patience about time, but members are asking serious questions, and I have a final point to make. If there was to be a change in fiscal policy by the UK Government, either it could unlock the £26.6 billion fiscal headroom to invest in public services, or it could use it to put out the fire that will start if we have a no-deal Brexit. It will be up to the UK Government how it uses those resources; we will have to reset the Scottish budget accordingly.

**Alexander Burnett:** I come back to the Fraser of Allander institute's report, which can be summarised by its title: "Where's the ... strategy?" Specifically, it says that

"what is striking was the lack of analytical assessment about the economic outlook—the key risks and opportunities we know that are coming from demographic change, automation and climate change—and how this might impact upon the public finances."

Does the cabinet secretary think that that is an accurate assessment of his lack of assessment?

**Derek Mackay:** I have said that I understand the Fraser of Allander institute's frustration at the Scottish Government's not having presented either a full-scale spending review or a mini budget. However, the report was not intended to be either: rather, it sets the financial parameters and it sets out the forecasts and projections. A further round of forecasts will determine the next big fiscal event, which is the Scottish budget. Before that, there will be a UK budget. If there is an emergency budget, there might even be two.

We are in uncertain times, so I have not set out illustrative scenario planning, which would just be speculation on a range of possibilities. I have set out the conditions and principles that I propose to deploy and the figures within which I am working. I defend the document that I have produced and the evidence that I am giving today, which show that we are focused on the financial challenge that we face.

**Alexander Burnett:** That might be the case, but there is still a lack of assessment of some of the numbers around population and demographics. Last week, I put this question to the Scottish Fiscal Commission. Population is obviously a combination of birth rates, mortality rates, people leaving and inward migration, but net UK inward migration numbers remain steady, so does the cabinet secretary think that even if we stayed in the EU single market, that would completely close the growth gap between the UK and Scotland?

**Derek Mackay:** Mr Burnett is asking good questions, but part of the challenge is that we do not control migration; we do not have a policy that determines how many people can come to Scotland.

Working-age population—the composition of the tax base—is important. When it comes to tax take, the numbers of people in the working-age population shrinking is the biggest issue for Scotland's economy. We can do much around economic performance and attracting people to Scotland, but we do not control migration. The projections say that the population in Scotland can grow only through positive inward migration.

Who wants a hostile environment in relation to migration to Scotland and the rest of the United Kingdom? The UK Government wants it, so that migrants do not come to Scotland and the UK to contribute financially. The cause of the problem is not the Scottish Government, but the UK Government's migration policies—hostile and mean-spirited policies that deter people from coming to the UK. We will have economic growth only if we have a growing population and a growing working-age population. We need to achieve that through migration. Mr Burnett is aware that the biological route would take more than a year or two to improve the working-age population profile.

**Alexander Burnett:** I thank the cabinet secretary for saying that I ask good questions, but there is a fundamental point of disagreement. Migration is not the whole solution. Even if we were to remain part of the EU single market, it would not be the full solution. Although migration might be part of the cabinet secretary's proposed solution, the real issue is that we are not creating the right skills base in Scotland and are not training our young people as we should be. If we rely purely on migration and on increasing the population, we will not improve our productivity figures. That was borne out by the evidence that we took from the Scottish Fiscal Commission last week.

**Derek Mackay:** That characterisation bears no relation to the evidence that I read in the Fiscal Commission's report. I read out a quote from its report in relation to population growth being the main driver of the GDP forecast. On GDP per head of population, we are reaching the point of convergence with the rest of the United Kingdom. Per head, Scotland does well on GDP growth—in some quarters, we have outperformed the rest of the United Kingdom. We are outperforming the rest of the United Kingdom on reducing unemployment and on exports, and we are second only to London and the south-east of England on foreign direct investment.

However, on migration, which we do not control, the UK Government is discouraging people from coming to work in the UK and—by association—Scotland. There is the magnetic appeal for migrants of London and the south-east of England, so we need to work harder in Scotland, which is why we want an approach to migration that is suited to Scotland's economic needs. Who has refused to take such an approach? The UK Government has.

There has been progress in productivity over the course of devolution: progress has been faster than in the rest of the United Kingdom. There has also been growth in wage earnings. To dismiss matters of migration and population is to totally dismiss the evidence from the independent forecasters, to whom Mr Burnett has asked me to look in order to inform my view.

In relation to the skills base, I point to our economic action plan and skills plan. We have brought down youth unemployment and are enhancing the skills agenda. We are doing more work on productivity through the national manufacturing institute. We are also investing in education so that we have more graduate apprenticeships, and more young people are going to positive destinations.

I am afraid that Mr Burnett's characterisation is a total distortion of the facts. However, the fundamental question was right—we need to look at population as a factor in Scotland's economy.

**Alexander Burnett:** Last week, Professor Smith spoke about worries about the skills of native Scots. Does the cabinet secretary share—

**Derek Mackay:** No, he did not say that. Do you want to read the quotation properly? Then, I will read what I have from the *Official Report*.

**Alexander Burnett:** Professor Smith said:

"Obviously, that is not to say that we do not need to worry about the skills of native Scots—of course, we do."—*[Official Report, Finance and Constitution Committee, 5 June 2019; c 22.]*

Does the cabinet secretary share Professor Smith's concern about skills?

**Derek Mackay:** Professor Smith said that we need to focus on the skills of Scots. I accept that, which is why we are investing in the measures that I have just listed. The SFC's report, which relates to the overall economic drivers, to the financial forecasts and to GDP, says that the difference in the forecasts is down to population and productivity. It is as simple as that.

We are investing in productivity, but we do not control matters relating to the population. Are we investing in our education, skills and apprenticeship systems? Are we delivering jobs? We can educate people, but the crucial issue is

whether we are creating jobs. Given that unemployment is at a record low, at 3.3 per cent, it looks as though we are. By some definitions, that is full employment. Employment is at a record high.

The only divergence is coming from deepening inequality as a result of wage increases having been higher for higher-rate taxpayers in the rest of the UK than they have been for others. That point of divergence speaks to issues of inequality and is worthy of consideration.

**Emma Harper (South Scotland) (SNP):** I am interested in issues relating to complexity and potential conflict resolution. One of our papers says that the fiscal framework sets out provisions for a memorandum of understanding between a multiplicity of agencies, including the OBR, the SFC, the Department for Work and Pensions and Her Majesty's Revenue and Customs, to support effective operation of the framework. That appears to contribute to the complexity of the fiscal framework, and we know that that causes different projections, based on forecasts and estimates. I am sure that the complexity causes conflicts, so how do you resolve them? What could be done to make the framework less complex? The first thing that comes out of everyone's mouth is, "It's complex."

10:30

**Derek Mackay:** It certainly is complex.

I mentioned the meeting that I had with the OECD yesterday. The OECD will produce a report, which members will be able to scrutinise once it is finished. I do not want to put words into the OECD's mouth, but it is fair to say—this goes back to the point that Patrick Harvie and Angela Constance made—that the framework is about as complex as a system of devolved finance can get. Even the OECD has not seen anything as complex. However, there we have it: it is a political agreement, and there are technical agreements.

Good relationships are important. The committee has taken evidence from HMRC, and we have engaged with it through our service-level agreement. In the technical areas, we try to get as much pragmatic resolution as possible. However, the framework is based on a political agreement on what powers would come to the Scottish Parliament, and there are then technical issues that are discussed between officials on how the system operates between the Treasury and the Scottish Government. We are doing our best to make the political deal work, but as I have said throughout the meeting, as we look at the figures and the concerns that members rightly have about the scale of reconciliation, and the prospect of those issues continuing over a cycle of a few

years, I feel increasingly that, taking all those issues together, the current parameters are inadequate and the current agreement needs to be revisited.

The timescale that has been set out for the review, by agreement between the UK and Scottish Governments, is that it will be done by the end of this session of Parliament. The details of that are yet to be arranged, and those would go through the joint exchequer committee in any event. However, I think that we need an earlier review. The Treasury will need to engage with us earlier because of the complexity that is emerging, how the system is developing and the fact that we are dealing with things issue by issue. Clearly, the complexity is giving us much food for thought.

**Emma Harper:** The joint exchequer committee governs the implementation, operation and review of the fiscal framework. Does that process need to be engaged with more regularly to support a further review?

**Derek Mackay:** I do not know who will be the Chief Secretary to the Treasury once there is a new Prime Minister and, potentially, a new Chancellor of the Exchequer and ministers. However, in the most recent discussion that I had with the current Chief Secretary to the Treasury, Liz Truss, she said that she was looking at reviewing the joint exchequer committee as part of a review of intergovernmental relations. There is the prospect of a review of the joint exchequer committee, but that is a commitment from the current Chief Secretary to the Treasury when I last met her. The next time I meet her, we will raise the issue again.

**Murdo Fraser (Mid Scotland and Fife) (Con):** In your foreword to “Scotland’s Fiscal Outlook: The Scottish Government’s Medium-Term Financial Strategy”, which is the document that we are discussing and which you published two weeks ago, in the final sentence of the fourth paragraph, you state:

“In Scotland, we have used the limited powers at our disposal to protect key services, despite the £2 billion real-terms reduction to our block grant since 2010.”

Is the latter part of that sentence true?

**Derek Mackay:** Yes.

**Murdo Fraser:** It is not true, is it?

**Derek Mackay:** It is true.

**Murdo Fraser:** According to the Scottish Parliament information centre and the Fraser of Allander institute, it is not true. There has not been a £2 billion real-terms cut in our block grant since 2010. Our block grant has increased in real terms since 2010, as you well know. Why did you publish a document with an untruth in it?

**Derek Mackay:** It is true. This is the periodical debate that Murdo Fraser and I have. If levels of investment had been sustained at 2010-11 levels, we would not have lost out on the resources that we have lost out on. It is true that, over the period of austerity, the UK Government has failed Scotland and the whole of the UK through that on-going austerity. This is the issue that we have around fiscal resource—

**Murdo Fraser:** The statement is untrue.

**Derek Mackay:** No, it is not.

**Murdo Fraser:** You have previously made the point that your limited resource budget has been reduced—I might disagree with your figures on that—but, in the statement that I read out, you say that the “block grant” has been reduced. However, the overall block grant is up, and SPICe and the Fraser of Allander institute will confirm that. Will you take the document away and correct it, because you are misleading Parliament? What you say is untrue.

**Derek Mackay:** On the contrary, I am happy to give Murdo Fraser more information on how the fiscal resource departmental expenditure limit has been reduced in real terms as a consequence of—

**Murdo Fraser:** With respect, the foreword does not refer to the fiscal resource DEL; it refers to the “block grant”. If you had said that the fiscal resource DEL had been reduced, you might have had a point, but you do not make that point; you say that the “block grant” has been reduced. The statement in the document is untrue.

**Derek Mackay:** While we are on this important subject, can I just say that I think that that is the first admission ever from Murdo Fraser that the total fiscal resource DEL has indeed been reduced?

**Murdo Fraser:** No—if you check the *Official Report*, you will see that I qualified my comment.

**Derek Mackay:** No, I think that you have just conceded that point, Mr Fraser. The point that I am making—

**Murdo Fraser:** There is an important point here—

**The Convener:** Let us stop this discussion now. It should be one person speaking at a time, please—one person should ask a question, then the other one should answer. You can go back to that format, or I will end this bit of the session and move on to Willie Coffey.

**Murdo Fraser:** Okay. I think that I have made my point, which is that there is an untrue statement in the document—

**Derek Mackay:** No.



**Murdo Fraser:** —and that you need to be more careful.

Let me move on, because I want to follow up on the questions that Tom Arthur asked about the Scottish budget. Can you remind us of the total value of the annual fiscal transfer to Scotland from the rest of the UK under the Barnett formula?

**Derek Mackay:** I have been taking the questions all morning, but if you want to go into specific details, I will ask officials to cover that.

**Daniel Hinze (Scottish Government):** I do not have that specific number to hand, I am afraid, but I would be happy to supply it.

**Murdo Fraser:** You can check the annual “Government Expenditure and Revenue Scotland” figures that are published by the Scottish Government but, from memory, I think that that figure is in excess of £10 billion a year. That is a fiscal transfer to the Scottish budget from the rest of the UK. Perhaps the cabinet secretary will recognise that figure.

**Derek Mackay:** Does Murdo Fraser want to get to his question?

**Murdo Fraser:** I was simply wondering whether you knew what your GERS figures said.

**Derek Mackay:** I am more than happy to debate GERS, but it is something of a sideways step from the medium-term financial strategy. GERS presents the notional estimates of what is raised and spent in Scotland. It is true that, as in the rest of the UK, there has been a notional deficit. Mr Fraser is well aware of the growth commission, of which I was a member; we show how we can address that notional deficit, make different policy choices and grow our economy to reduce that notional deficit. In the most recent GERS publication, the notional deficit was down.

There are many years in which Scotland would have been in a better financial position relative to the rest of the UK, but there are others in which that will not be the case. If we were an independent country, we would not be dealing with the Brexit madness, and we would not have had austerity and subdued economic performance. We would be performing like most small advanced economies around the globe and growing our economy. The conclusion that I take from GERS is that it is the current constitutional position that has given us an estimated notional fiscal deficit.

**Murdo Fraser:** You mentioned Brexit. You said earlier in the session that you regretted the failure of the Prime Minister to get her orderly Brexit deal through the House of Commons. Do you now regret that Scottish National Party members of Parliament voted down that deal?

**Derek Mackay:** No. I am happy to correct the record, if that is what I said. I regret the failure of the Prime Minister full stop. The Prime Minister has been a failure, she has fallen on her sword and she could not even do that right. As far as delivering Brexit is concerned, it would have been better if she had delivered the result in Scotland, which was, of course, to remain in the European Union.

The point that I was making was that all the analysis shows that a no-deal Brexit would be economically catastrophic. We have also analysed what the impact on Scotland’s economy would have been if there had been a deal—there would have been growth foregone. The best economic and social outcome for Scotland, and for the rest of the UK, is to remain in the EU. However, no potential replacement Prime Minister looks as though they will do any better for the UK or Scotland and no new chancellor will give us coherent tax policies, from what I have seen of Boris Johnson’s commentary.

**The Convener:** Willie Coffey will take us back to the medium-term financial strategy.

**Willie Coffey (Kilmarnock and Irvine Valley) (SNP):** Thank you, convener. This might be helpful in leading us into our next round-table discussion. Page 16 of the strategy document talks about EU funding and programmes and says that those are worth about £5 billion to Scotland over the 2014 to 2020 period. To set some context for the discussion that is coming up, can you tell the committee where we are with those programmes, which are worth a substantial amount of money to Scotland? We have had three years to plan for whether they will continue as they are or whatever. What is your understanding of the current arrangements with the UK Government concerning the continuation of the EU programmes?

**Derek Mackay:** The figure that Mr Coffey gives is right—in the current budget round, EU funding is worth more than £5 billion to Scotland. That supports jobs and infrastructure, sustains rural communities, provides valuable support to the farming and fishing industries and delivers research for universities. Those are some of the areas that have benefited from that £5 billion.

We have no certainty about what the replacement funding from the UK Government would be in the medium and longer term. The Scottish Government’s position has been that there should be no financial detriment to Scotland’s economy or public finances as a consequence of exiting the EU. However, we have no guarantees from the UK Government and no detail on some of the specific funding streams. I am sure that that will all be revisited after the

takeover that is happening in the Tory party right now.

**Willie Coffey:** We have had three years to try to set some terms of reference for what will happen but, for the past three years, those in the UK Government have been fighting among themselves like ferrets in a sack and no work has been done in this area. The EU programmes are crucial for the future of Scotland.

**Derek Mackay:** The Scottish Government has been trying to work on the matter, but it is hard to deliver successor schemes when we do not know what will succeed the existing EU schemes.

Commitments have been given on some elements of funding, but not specifically on what Scotland would receive, which would determine how we could deploy those resources. Our principle has been that there should be no detriment; I am not sure that that will be delivered.

If we look at the current persuasion of those who are vying for the support of the Tory membership, they do not seem to be too mindful of Scotland's economic needs, and I doubt that making sure that Scotland and the other devolved Administrations get a fair deal—recognising that Scotland did not vote for this mess but will be paying for the financial consequences of it—will be foremost in the next Tory Prime Minister's mind.

I am sure that work has been done at UK Government level, but there have been no decisions on the medium and long-term continuity of the funding, and no details on what funding we will receive post-exit.

**The Convener:** I thank the witnesses. I suspend the meeting briefly before we move to the next item, which is on EU structural funds.

10:41

*Meeting suspended.*

10:51

*On resuming—*

## **Structural Fund Priorities (Post-Brexit Funding)**

**The Convener:** Our second agenda item is the taking of evidence in round-table format on the funding of EU structural fund priorities in Scotland post-Brexit. I welcome our witnesses to the meeting.

Before we start the discussion, one member from each of our recent structural funds workshop visits will provide a brief summary of how they felt that their session went. I invite Alexander Burnett to give us a quick reflection on the session in Inverness.

**Alexander Burnett:** The convener, Patrick Harvie and I went to Inverness. I thank the clerks, the parliamentary outreach team and SPICe for all their assistance. I also thank all those who attended. It was a very valuable session, and we were pleasantly surprised by the volume and depth of the information that we received. The first learning point was that, with or without Brexit, a major overhaul of the funds is due. Therefore, regardless of other events, the committee is doing a valuable piece of work.

A lot of negative points were made about the administration and bureaucracy, much of which seems to have been created in Scotland, as a lot of it is not replicated in other EU countries. A lot of positive suggestions were made about how future programmes and objectives could be improved on, particularly in relation to there being more input from those who are closer to the delivery of the funds. Finally, and most importantly, setting aside the negative points and the suggested improvements, nothing should detract from the hugely positive benefits that such funds have brought.

**The Convener:** Thank you. I invite Adam Tomkins to cover how his group felt about its trip to Paisley.

**Adam Tomkins:** Four members of the committee went to the Paisley round-table event: me, Tom Arthur, Emma Harper and Neil Bibby. As with Alexander Burnett's experience of the event in Inverness, it was excellent. The range of questions that we explored in the time that was available gave the committee exactly what it needed to know, in particular from listening to people on the ground level who have direct experience—35 years of it, in some cases—of applying for and processing structural funds-related projects.

We talked at length about what structural funds are for, the strengths and limitations of the current sets of schemes, how they are administered and processed and what should replace them, regardless of whether the United Kingdom leaves the European Union.

There was a lot of concern about the requirement for match funding, which was considered to be a significant brake on otherwise valuable projects, as it meant that funding for those projects could not be applied for. There was a great deal of concern about the bureaucracy that is involved in applying for funding and then, once it has been obtained, claiming it. There are current problems with how that is—or is not—working in Scotland.

During the inquiry, we will certainly need to look at the information technology problems that the Scottish Government is responsible for. There are also concerns about the extent to which structural funds replicate funding that is available in other areas.

It seems as though one problem is that there are fashionable issues to fund—skills training for 16 to 19-year-olds and social care for the elderly are good examples. There are good reasons why they are fashionable, but other areas fall through the gaps. The range of issues that the funds cover was certainly a feature of our discussions.

In relation to how the outreach worked, the length and structure of the meeting, the brief that we had from the clerks and the number, range and expertise of people in the room were excellent.

There were three criticisms of the event: the room was too hot, the coffee was too weak and the biscuits were too few.

**The Convener:** Those are severe criticisms. James Kelly will cover what happened in Dunfermline.

**James Kelly:** Murdo Fraser and I attended the workshop in Dunfermline. Like the other workshops, it was well run by the clerks and the Parliament outreach staff and, consequently, we found the session very informative.

Three themes came across in the workshop. On the current funding arrangements, people were positive about the European structural and investment funds and their impact. The policy outcomes from an EU, UK and Scottish Government perspective were consistent—they involved helping businesses to create jobs, raising awareness of and helping to meet climate change targets and, in some communities, helping with social inclusion.

On the process, from a positive point of view, people considered that multiyear funding was good and that the LEADER programme worked

well in getting funding quickly to those who had applied for grants. However, there was a good deal of frustration about the process—it was overly complex, the audit requirements took a lot of time and there was an element of duplication, because a lot of groups already had to satisfy their own audit requirements in relation to the use of public money. The filling out and auditing of timesheets that had to be done to claim for staff resources was quite a big issue, which resulted in staff not allocating all their time to the project that they were working on. As was the case at the other workshops, there was criticism of the IT. It was also considered that the communication in and about projects was poor.

Taken together, the lessons learned are that people are keen for multiyear funding to continue and for that to be allocated at a Scotland level; a much simpler process must be put in place to manage the allocation and the administration of the money; there has to be better communication in projects; and, because information about the funds is not reaching all the places that it could, people—especially in, for example, rural communities—must be made aware that they can apply for that money.

We had a very good workshop, and important lessons came out of it.

**The Convener:** I thank members for giving us a flavour of the discussions. I hope that those who are involved in today's round-table discussion understand just how deeply we are going into the topic and how seriously we are treating it.

The round-table format is intended to allow, as far as possible, a free-flowing discussion—those who have been involved in such discussions will know what I mean by that. If you want to contribute, just catch my eye or that of Jane Williams, the clerk, and we will make sure that you get to say your piece.

The discussion will be based around three themes: the allocation of funding; process and administration; and outcomes. To kick off each part, I will ask an MSP to introduce it and we can get into a free-flowing discussion and exchange of views that will be valuable to the committee.

Tom Arthur will kick off the process.

11:00

**Tom Arthur:** The first area that the committee is interested in exploring is the allocation of funding, as the convener said. With the proposed UK shared prosperity fund, there is the potential for a tabula rasa and for us to begin again and do something completely new, or we can mirror existing arrangements. Should we move to a system that centrally administers the fund and

which is run by the UK Government, should we try to replicate what we have at the moment, or should we look for new and more bespoke opportunities to meet local needs and demands? The committee is keen to hear your views on how funding should be allocated, who should administer it, and what the criteria and decision-making process should be. I open up the discussion to our guests—we are keen to hear your views.

**The Convener:** Dugald Craig looks like a man who is ready to give us some thoughts.

**Dugald Craig (Colleges Partnership):** On the administration of funding, the starting point should be the Government white paper that says that one of the reasons for repatriating funds is so that we can increase subsidiarity and devolve funding to the devolved nations. It is obvious from that that the funding should be administered at least at the devolved nation level.

We in Scotland have taken a silo approach to funding up to now. Countries such as Wales and Latvia have looked at all the European funds together to see how they can work in harmony to achieve various objectives, but we have not taken that approach. It is a bit like a black art, which is one of the reasons why there is a communication problem. There is a lot of funding available, but a community group or education group that has a really good idea might never get funding to help it implement that idea if it does not happen to know about the funding streams that are available. The way funding is handled in Scotland means that even if you happen to know stuff about it, you tend not to have a medium through which to share that. We all found that when we were sitting in the other room, waiting to come into the committee room—we all know different things about different areas of funding.

It will be important for the future that there is coherence across all the funds. I do not think that the committee should look at the European structural and investment fund alone; it should look at the whole range of European funding that will be repatriated, what the Scottish share will be and how it can all be harnessed.

**The Convener:** Thank you for that first contribution. Kate Still's organisation submitted a useful paper. Would you like to reflect on some of that, Kate?

**Kate Still (Prince's Trust on behalf of the Young People's Consortium):** I echo quite a lot of what Dugald Craig said. We want to see a more collaborative approach. It is really quite difficult for the third sector to be able to align at a local level when the organisations do not necessarily know about all the funds that are available and what is happening at that level.

We want to keep the principle of devolving the funding, which should represent streams from across the different programmes and not just the structural funds. There should be a sense of the Scottish Government holding accountability, but regional partnerships and organisations should also be working together, and local, community-based organisations should have much more access to funding. At the moment, it is difficult for community-based and third sector organisations to engage effectively in the processes.

**Susan Love (Federation of Small Business):** I want to pick up on some of the points that Kate Still made. For us, there is something interesting about how we get the balance right. From most of the evidence that I have seen—and this is certainly our position—there is a sense that it would be far more practical and sensible for the Scottish Government to manage the funding. In terms of economic development, that would align better with current functions.

There is also a lot of interest in greater community decision making on European funding. The issue for us is about how to get the balance right. On the one hand, the LEADER fund is an important source of economic development support for businesses in rural communities in particular, and the LEADER action groups take quite a different approach to developing their strategies compared to what happens with elements of structural funding. That is seen as a positive, but if there is too much local decision making, we have noticed that there can be a tendency to duplicate, with everybody coming up with their own scheme when there might already be a national programme or service.

We think that the balance has to be somewhere between there being an element of national control by the Scottish Government, which can provide oversight and a strategic framework, and more local input into how funds are spent, because we recognise that there is a demand for that.

**Ross Johnston (Scottish Natural Heritage):** I echo that. There is an opportunity to reset the way in which funds are managed in light of experience, which involves frustration as well as benefit.

Form needs to follow function. We agree that it makes sense for the Scottish Government to oversee what is going on and for the funds to be targeted at the outcomes that are decided at a Scottish level—we will deal with the issue of outcomes later. The way in which those funds are managed should be designed around the benefit that is being sought. There is no one-size-fits-all approach that will deliver that. There must be a local approach, a regional approach and a national approach. It would make sense not to rule out any of those at this stage but to see which would be the best way to deliver the benefits that we are

seeking, in light of the experience that we have had.

**The Convener:** Your organisation will have seen a range of the things that can happen. Dugald Craig made a point about creating more synergy between the funds that currently exist. Is that the experience of Scottish Natural Heritage?

**Ross Johnston:** Very much so. In terms of our experience of managing a fund and the experience of applicants to our strategic interventions in relation to the European regional development fund, we can see that there is a challenge in accessing and identifying other potential sources of funding. It seems that most applicants have to conduct that exercise independently, which means that they reach different answers and are often unaware of funds that similar groups elsewhere in the country manage to access.

I very much recognise the picture that people are painting. The complexity of what we have at the moment is not helpful. There are not only the European funds; there is also the growth deal money and the funds that are to be managed under the National Infrastructure Commission and the Scottish Futures Trust. All those funds have a related function, but, at the moment, the picture appears to be unnecessarily fragmented, which is unhelpful with regard to delivering the benefits.

**Nora Uhrig (Equality and Human Rights Commission):** The main concern for the Equality and Human Rights Commission is around ensuring that there is no regression in terms of equality and human rights and the funding that that area receives. We recently published a report on the matter. As part of that research, we interviewed various stakeholders across Great Britain. Some of the things that we were told have already been mentioned today, including the importance of long-term funding. We were also told about the importance of devolving the funding and the decisions around it to an appropriate local level. It is important to have a UK-wide strategy, with broad priorities, but there are also local priorities, which might be Scottish priorities or priorities that are based on the issues in the local communities that the funding goes to. Setting local priorities will allow the needs of marginalised groups and people who share protected characteristics to be targeted.

**Ruchir Shah (Scottish Council for Voluntary Organisations):** My points will build on what Nora Uhrig has said. For us, the starting point is that the issue is about people in communities. The funding represents a really important and stable resource over a period of seven years. As James Kelly quite rightly pointed out, it enables us to have something that is slightly more independent from the immediate policy requirements of any level of

Government. It is a really important resource for people who are supported by the third sector and others, and it is really important that we keep that money and that we make sure that an allocation comes through to replace it specifically and directly.

The key point that I would like to make is that there is not actually a Brexit dividend, as far as I can tell. The Institute for Fiscal Studies and others have all said that there will be no money coming back from Brexit, as there will be a net cost. What that really means is that any allocation will be top-sliced from existing UK resources, including the Scottish block grant, and any money that comes through and is pooled at the UK level will be at the expense of other resources.

The default, then, is that if there were no UK-based replacement such as a shared prosperity fund and the UK Government decided to spend money on a devolved priority such as health, that would be Barnetted across to the Scottish block grant. However, if the UK Government decided to have some central fund, we would be pushing for a fair share of that to be allocated to Scotland.

For us, the key starting point is that any resources that replace the European funds and their function must be fully accountable to the Scottish Parliament, because of the need for policy coherence and alignment with all the existing policy areas that closely relate to the functions of LEADER, the ESF and other such programmes in Scotland at the moment.

**The Convener:** What size should the pot be and what timescale should it cover? The current programmes last for seven years, which brings us back to the point about long-term funding. Ruchir Shah has raised the issues, but I want others to have the chance to tell us about the scale of what will be available and over what term the money in such programmes might be spent.

**Ross Johnston:** On the scale of funding, I think that we should seek the funding that is required to meet the challenge that we face and get the benefits that we want. Obviously, we would argue for more funds in order to deliver more benefits, but I do not think that there is much that we can offer to that debate, which will happen at national and UK level.

As for the longevity of the funding, experience of the current schemes shows that providing security to applicants and maintaining the longevity of funding commitments are critical to delivering benefits, and a more annualised approach will have real risks with regard to the efficiency of the process and the confidence of applicants in applying for funding and being able to deliver benefits.

**Dugald Craig:** The scale of the funding is one of the reasons why I have made a plea that we do not focus just on structural funds. If the UK Government is going to repatriate all the money that it contributes to all the European programmes, we and the other devolved nations should be pushing for a proportionate share that is no less than a population share of the amount. In my submission, I have listed all the other programmes that we need to look at to ensure that we get our share. There is no point in not doing that.

However, my concern is that that argument could be undermined by the poor performance with regard to structural funds. It would be easy for someone to tell us, “You’ve been getting this or that amount of money, and if you’re going to give about a fifth of it back because of the way you’ve been managing it, do you need all of it anyway?” We need to be very careful about that.

I agree with Ross Johnston about the longevity of funding. Annualising things is no way to approach the issue, and I think that there should be a term of, say, five or seven years, because that will allow us to set longer-term objectives and give projects some security that they will be able to get to the end of what they have planned.

**Kate Still:** Longevity is important, but so are responsiveness, flexibility and agility to meet changing conditions. We need programmes that do not lock us into things. For example, unemployment might be low just now, but we do not know what the impact of a post-Brexit world will be, and we have to ensure that the programmes are flexible and responsive to such changing conditions.

**Susan Love:** This might not be a particularly helpful response, but, for us, this is another one of those questions where a difficult balance needs to be struck. I take the point about longevity, because as customers or end users of the service, we know that it takes a really long time to build awareness among the small business community about a scheme that might be available. Indeed, such schemes often end just as people start to realise that they exist.

We understand the point about longevity but, similarly, we have criticised how we offer business support, whether it comes from European funding or core funding.

11:15

Historically, we have been terrible at being agile enough to respond to economic situations. I remember some of the discussions that happened after the recession around how to repurpose European funding. It was a long and painful process to turn around a product so that it would be available to businesses to support the rapid

change in economic circumstances. Therefore, we need a framework that enables us to respond more quickly to what businesses need.

**Tom Arthur:** There is a broad degree of consensus among contributors that the funds should be administered from Scotland. How should those repatriated funds, as Dugald Craig characterised them, be devolved from the UK Government to the respective nations? What formula should be used—should it be based on population share or Barnett, or should there be a needs-based formula? How should the UK Government devolve that pot of money to the devolved nations?

**Ruchir Shah:** The European Union currently uses a mix of approaches to allocate the funding. As well as needs, it takes into account things such as GDP. We have outlined the fairest approach, which would be, at its core, population based. As others have suggested, there might be some adjustments on top of that, but basing the core on population would be helpful, because that could apply equally to a centralised pot—say a Treasury fund such as the UK shared prosperity fund. A population-based share of that for Scotland would be 8.4 per cent. By default, the approach would apply equally if there was no centralised pot and we defaulted to using the existing system, which would be the Barnett formula—I am assuming that the money is not redirected at tax cuts or anything like that.

That population base should be at the core of any allocation formula. However, once the money comes to Scotland, the key thing, which goes with the allocation, is that, if the Scottish Government is administering the funds or is the managing authority, as it is now, the accountability for how those funds are used should run directly and solely to the Scottish Parliament. At the moment, accountability can be a bit loose. There can be accountability to the European Commission and to the UK Government. That situation is not good for transparency, participation and openness in how the resource is delivered. If the Scottish Parliament has the key accountable body role, that will bring more trust into the way that funding is allocated.

**Dugald Craig:** I endorse Ruchir Shah’s comments about the Parliament being ultimately responsible. The Scottish Government’s decision to take the management of structural funds in house was poor. In my paper, I have been trenchant in my criticism of the way in which the programme is run. Accountability must come to the Parliament, because a siege mentality has developed in the department that runs the funding. There is no longer any partnership. A decade ago, Scotland was praised for its partnership working. The partnership working model was presented all

over Europe because of the way that Scotland managed funds. That has now gone. The people who manage the funds are no longer our partners. We feel as though they are tax inspectors who have come to look at us. They are not there to help us; they might think that they are, but they are not. The Parliament must take control of the funding, rather than the funding being controlled by a Government department.

**Murdo Fraser:** It is like the old saying, "I am from the Government; I am here to help you."

**Dugald Craig:** Yes, it is.

**Murdo Fraser:** That was not the point that I was going to make.

I go back to Ruchir Shah's point about wanting the allocation of funds to be population based. Would that not put a cap on the amount of money that would come to Scotland? Historically, we have done better than our population share from structural funds. If it is based on population, could we lose out?

**Ruchir Shah:** Yes, we addressed that in our submission. We said that

"Better targeting and alignment of funding to the people and communities our sector supports is more important"

than having slightly less money than we currently have through European funding. We could have a system in which more money, or the same money, comes to Scotland, but the way that it is allocated actually means that less money reaches people and communities. We would rather flip that the other way around.

**Adam Tomkins:** Anyone can answer this question. Why should allocation of funding be based on population rather than on need? If the purpose of shared prosperity funds, structural funds or whatever we want to call them is to address need in areas of multiple deprivation—which is certainly what we heard from our group in Paisley, in Renfrewshire—why should the allocation have anything to do with the number of people who happen to live in a nation or region of the United Kingdom? Why should we not focus on need?

**Kate Still:** We advocated a combined approach, including a needs-based approach, that looked at what we want to tackle as priorities. With the end in mind, we thought about the equalities measures that would ensure a smarter, greener and safer Scotland.

We want there to be full funding rather than match funding, because that has been a nightmare in relation to allocation and underspend. People cannot work out where the match funding will come from in advance of a project, which is creating a huge barrier. People are searching for

the match funding and trying to ensure that it is clean. Organisations almost need to carry out an audit of whom they collaborate with in order to put the package together.

We want there to be a needs-based approach that is fully funded. We proposed an approach using Barnett plus 10 per cent, but we debated other options. The most important thing is that the money goes to the people who need it. We cannot afford to send money back to the EU when we have people who really need it.

**Nora Uhrig:** I reiterate what Kate Still said. We have not looked at the specific formula that should be used. For us, it is about the money reaching the people who need it most, such as marginalised groups. As has been said, a lot of the stakeholders we talked to mentioned issues in finding match funding and the administrative burden that is linked to the current funding.

During our research, a Scottish stakeholder said that, if there is a hard Brexit, there will be an increase in the number of people in marginalised groups and an increase in the number of people who require such funding. When thinking about allocation, we should take into account that the current need might change, depending on the outcome of Brexit.

**Adam Tomkins:** That is a very interesting perspective, given the organisation that you represent. From an equalities and human rights perspective, you do not have an argument against the formula being based on need.

**Nora Uhrig:** As I said, we have not looked at the formula specifically; we have looked at ensuring that the funding that is currently available for equalities and human rights issues stays in place. As Ruchir Shah pointed out, a different formula might be used across the UK that would allocate less money to Scotland, but using the money in a different way might allow it to reach more people. We do not have a position on the formula per se.

**The Convener:** We are beginning to drill down into areas relating to process and administration. Given that we are already in that territory, does James Kelly want to get us into that discussion?

**James Kelly:** Sure. One of the things that surprised me at the Dunfermline workshop was how cumbersome and complex the process and administration of applying, allocating and managing funds is. We are talking about public money, so we need methods for monitoring and ensuring accountability. That must be balanced against the need for audit and compliance processes not to be too complex and the need to prevent the duplication of work in other areas. How can we learn the lessons from the process that we have used previously, which has attracted

an element of criticism and frustration, to put in place a new, streamlined process that speeds up the allocation of money to local groups and ensures transparency in how the money is managed?

**Ruchir Shah:** The good news is that a huge amount of literature and research that has learned a lot of lessons from the past is now available to show what a good funding programme would look like, so that will not be a problem. We can certainly share some of that information with the committee.

The view that the current system is bureaucratically burdensome—except when there is an intermediary that provides a grant scheme to take that burden away—is definitely shared by everyone to whom I have ever spoken who uses European resources or funding. As members can imagine, the fact that 27 other countries in the European Commission are involved is why we have a burdensome system in place. Without their involvement, we will not have to do things in quite the same way, of course. We have the opportunity to reduce the burden and administrative requirements and make the process much more open, transparent and streamlined. Information on how to do that is available, and we can share that with the committee.

**Dugald Craig:** Like many of the respondents, I have been very critical of how things have been handled. That criticism is not restricted to some of the programmes that are managed in Scotland. The UK seems to take a gold-plating approach, which makes things a little more burdensome than they are elsewhere. However, there are lots of examples of good practice out there, and we should look at them.

We could look at examples of good practice from the past and fine tune them so that we can use them. I hope that there is still a legacy that we can learn from, or some knowledge of previous iterations of the programme, which seem to have been managed in a more streamlined, transparent and less cumbersome fashion. As I said, there are good examples in Wales and Latvia, and we can look at what is being done in those places. I understand that the UK Government and the Scottish Government have been looking at what is happening in Switzerland, as it works on a bilateral basis, but I urge members to look not only at that example. If you speak to the Swiss Government, it will tell you that the approach is great, but if you speak to the Swiss institutions, they will give you a different picture. It is not as complicated as the things that we are trying to do, and there are other examples that we should learn from.

**Kate Still:** We have argued for a governing body or managing agent body to represent the third sector, which could be based on previous partnership approaches that we have had in

Scotland and which could involve people who know about and work with the sector and support capacity building in it.

All the technical assistance that used to support partnership working in the past has been removed from the current programmes and replaced by an incredibly difficult audit and compliance regime that passes on the burden of cash flow and underwriting a lot of the activity of the third sector, which ultimately does not get paid for that, because drawing down the funding has become so complex. We would argue for more collaborative approaches and a real sense that managing the funding is a collaborative, transparent and open decision-making process.

**Ross Johnston:** I echo that. The burden and complexity of European funding are well known, and we must try to move away from that model while maintaining rigour and transparency. We must not throw the baby out with the bath water.

On the other elements of how the funds are administered, advice, support and capacity building are important, and they can get lost. They need to be part of the thinking about any future scheme, as they are also needed to deliver the benefits; it is not just about the money. They are often overlooked, or they come in at the last minute. As Kate Still said, some advice and capacity have been lost from the sector that we work in, to the detriment of what we have been trying to achieve.

There are choices in administration relating to challenge funds and co-production. A challenge fund approach might be more appropriate for generating innovation and new ideas if we are looking to be more innovative and there is no established expertise. However, if we are seeking to fund and support well-established aims and organisations with capacity and a track record, a co-production approach would be much more appropriate. In the particular areas that we are working in, on the basis of our experience thus far, it would have been better for us to go down a co-production route, but we have gone down the challenge fund route because of the design of the scheme. We have learned from that. It is another element of how a scheme is administered. You need to choose the right scheme design to deliver the aims that you want, and choosing between a challenge fund and a co-production approach is one element of that.

11:30

**The Convener:** A theme at our meeting in Inverness was that, if we were starting with a clean sheet of paper, assuming that there was some sort of fund, whatever it looked like and however it was distributed, why would we need to



look at how other European countries are managing funds? To avoid duplication, why would we not use the current funding models that the Scottish Government uses when it funds bodies for other purposes, which I understand are not as cumbersome and would streamline the process? That might be the view only in the Highlands and Islands, but would it be possible to do it in that way?

**Dugald Craig:** In my submission, I comment that a lighter touch is taken in managing a lot of other public funds, which should also be applied to these funds.

Although I do think that we can learn from experience elsewhere, unfortunately, for years and years, the message here has been not that we should learn from that experience but that the bogeyman will come and get us if we do things in another way. There is always a big baddie somewhere who gets blamed for the rule that is in place when, in fact, it is a self-imposed rule. As long as learning from experience does not get turned around and subverted into some excuse for not having transparency—

**The Convener:** But, in your experience, is the process of how the Scottish Government manages its own programmes—those that are currently tied to the Commission in terms of the rules that are followed—less bureaucratic? Does that process allow for the co-production that we are talking about in how the funds are distributed?

**Ruchir Shah:** The LEADER programme has been excellent. It has been very much a bottom-up approach, pioneered in the Republic of Ireland and then replicated elsewhere. In Scotland, there has been a good version of that, which has worked well and in which there is a lot of trust. That is not a European structural fund programme but it is within the remit of the committee, and there are things that we can learn from it.

We definitely do not want to replicate how the managing authority in Scotland is currently running the structural funds or the methods that are used there. However, there are other funds that the Scottish Government and others run that are good examples to follow.

A key point is that we have an excellent national performance framework that sets out Scottish national outcomes. We should use that to frame this work.

**Angela Constance:** There is always an opportunity to do things differently and to learn from experience. I am aware that, as well as the 2014 to 2020 programmes, there were earlier programmes that we can learn lessons from. My memory is somewhat rusty, but I think that there were some issues that led to a change that is reflected in the current programme. It is important

that we learn all the lessons that we need to learn from our own past as well as from international best practice.

Let us look at how this all hangs together. We have delivery bodies, lead agencies and the managing authority, which is currently the Scottish Government. I am not necessarily arguing against this, but, if the Scottish Parliament, as opposed to the Government, was the ultimate accountable body, how would it work with, for example, a third sector, broader partnership body? The Parliament can hold the Government to account and be very specific and pressing, but how would the Parliament hold organisations external to this place to account? Bear in mind the fact that, as well as the need to strip out bureaucracy and deal with needless bogeymen, there is a need for some level of scrutiny and accountability of what, at the end of the day, will be public money.

**The Convener:** And who would scrutinise the Parliament on that?

**Adam Tomkins:** The voters.

**The Convener:** The voters. Sorry—who wants to answer Angela Constance's question?

**Dugald Craig:** I will have a go, but it might not be the correct answer.

We will need to have a body that manages the funding in some way, and there are plenty of examples of how different bodies can run things. That body could be accountable to the Parliament for what it did, and it could be entrusted to meet certain standards, for which it could subsequently be called to account. The Parliament would not have to ask every project what it was doing; that body could be responsible for doing that. The Scottish Further and Higher Education Funding Council does that with all the funding for the colleges and universities. A similar model could be used in this context.

**Angela Constance:** Hmm. [*Laughter.*]

**Dugald Craig:** I am not suggesting that the funding council model would be the right model to use.

**Ruchir Shah:** I am less anxious about the issue. If, ultimately, the Scottish Parliament is the accountable body rather than the European Commission or whatever, even if the funds sit within the Scottish Government, the system will still work, because it will be possible to scrutinise things fully.

We have made it clear that third sector organisations, alongside others, should be trusted to run funds themselves. Of course, those organisations would be commissioned by the Scottish Government. There are already examples of the third sector being commissioned to run

funds by the Scottish Government. The key thing is that, when it comes scrutiny, the route will be through the Scottish Government to the Scottish Parliament rather than through the Scottish Government to the European Commission or to some other body, with all the muddiness that that involves as regards who is accountable. Having a clear sense of accountability to the Scottish Parliament will free us up to bring in resources and lots of agencies, which will have a clear route in, through the Scottish Government, to the Scottish Parliament.

**Dugald Craig:** We have a model for the Erasmus+ programme whereby the managing authority is the UK Government's Department for Education but the programme is run under contract by the British Council and Ecorys. All the operational decisions about running the programme on a day-to-day basis and all the verification and audit procedures are handled by that agency, but it reports to the Government department, which reports to Parliament. We could take the same approach here.

**Kate Still:** I echo what has been said. For many years, we ran such models. Right back at the beginning of structural funds in Scotland, we had partnership organisations that reported directly to, and were accountable to, Government here but had professional expertise in supporting partners and managing the funds.

**Nora Uhrig:** On the subject of the monitoring and evaluation of funds, we found that the data that was available on equalities in Scotland was very weak, whereas there was data available for Wales and England, through the DWP, that we could use in our research. Our report includes nice maps of Wales and England, through which we provide more information on the beneficiaries of the funds and which protected characteristics benefited the most, but we could not do that for Scotland because the information was not available. We and the stakeholders we talked to stressed the importance of addressing the administrative burden that currently exists, but there is also an argument to be made for focusing on collecting and monitoring the right data, and protected characteristics are key in that respect.

**Susan Love:** From a business user perspective, we can comment only on the funds that benefit businesses. One concern that we have is that, if we start with a blank sheet of paper—let us assume that a new agency is set up to manage the funds—we must not lose sight of the many lessons that we have learned about how we currently manage funding and programmes for business.

On the negative side, there has recently been an inquiry into business support in Scotland and we know that there are issues to do with how we

manage a national framework project that is delivered locally when it comes to understanding who is accountable for that if things do not go the way that we all expect them to. I am keen that whoever has a role in managing the funds understands the lessons that have been learned in other areas of Scottish Government activity.

On the plus side, I understand that, on the back of the enterprise and skills review, Scottish Enterprise is completely revamping how it delivers grants to businesses and has put a lot of thought into how to get the process to work, from a business approaching it to the granting of an award. We would want that knowledge and all the work that has gone into that to be carried over to the way in which the funds are deployed in the future.

**The Convener:** That is useful.

**Willie Coffey:** I want to ask about the issue that Nora Uhrig raised to do with poor data on certain issues. As a member of Parliament, I have tried for a number of years to find out information about my constituency, but I very rarely get it, and I am sure that the same applies to colleagues. I get information and data pertaining to local authorities and so on, but I rarely get information relating to my community, which I am elected to Parliament to represent. Is there a job of work to be done to collect data on a constituency or regional basis in Scotland so that we can properly reflect the outcomes that we are interested in achieving?

**The Convener:** Emma Harper has a question as well, so I will let her ask it before we go back to the panel.

**Emma Harper:** Funding is complex. I have an interest in the common agricultural policy, which the Scottish Government currently manages, but there will be changes to that. We have major differences in Scotland, as 85 per cent of the land here is less favoured area, and we have pillar 1 and pillar 2 funding. It is all very complicated. This might be a question for Dugald Craig or Ross Johnston. How should funding for rural areas and for farmers and food producers in Scotland be managed?

**The Convener:** Wow—that is quite a big question. We have a couple of minutes to reflect on what Willie Coffey and Emma Harper have said. Does anybody want to pick up on any of that?

**Ross Johnston:** On Emma Harper's point, a whole separate body of work is being done on that by the Government and various organisations such as mine, with lots of reports being gathered that are being led by other ministers. I am happy to talk to Emma Harper after the meeting to explain how we are contributing to that complicated picture that she has set out.

**Dugald Craig:** A number of years ago, the organisation that I work for submitted information to various Government departments on how a Scottish national funding agency could be set up and administered. The thinking was that anyone from any sector who had an idea could go to that agency to find out what levels of support would be available and what programmes would be appropriate. At the moment, it is a guessing game. We need to get away from that so that folks who need the money or who can use it usefully can get it.

**Susan Love:** We tend to think about there being rural funding and then enterprise and economy funding, and we have not been terribly great at seeing the rural economy as part of the economy and enterprise funding. Notwithstanding all the positives about LEADER, there might be an opportunity to bring the funding a bit closer to existing economic development and enterprise approaches. There could be better coherence and alignment, rather than the funding sitting off to one side.

**Nora Uhrig:** My point was more about data collection. Obviously, projects that are funded by EU funding have different reaches and cover different areas. It is about collecting that data and creating a system that properly shares it and makes it easier for organisations and parliamentarians to access and to see who are the beneficiaries in the local community and where the needs are that are supposed to be met.

**The Convener:** We will move on to outcomes. I apologise to Patrick Harvie but, as is usual for the person who asks the last question, a lot of the areas that he was going to ask about have been covered. We have already covered some of the issues on outcomes, but we will have about 10 minutes on that and then see where we get to.

**Patrick Harvie:** It is inevitable that there is some overlap between the themes that we are talking about, but I have been asked to kick off the discussion on how to achieve flexibility in the way in which the funds or replacement funds are managed to achieve the best outcomes for Scotland.

I am not sure whether this happened in the other workshops but, certainly in the discussion in Inverness, some people talked about the UK shared prosperity fund's remit which, from the limited amount that we know about it, is to

“tackle inequalities between communities by raising productivity, especially in those parts of the UK whose economies are furthest behind.”—[*Official Report, House of Commons*, 24 July 2018; Vol 645, c 77WS.]

11:45

Some people were concerned that the focus on productivity, although that is important, might close down the opportunity to address social or environmental issues or the human rights issues that were mentioned earlier or, indeed, inequality within—as opposed to between—communities.

There is also the point that Ruchir Shah made about the submission from the Scottish Council of Voluntary Organisations, which mentions the national performance framework and the Scottish national outcomes. Although people might have views about whether they are correctly framed, they have achieved some degree of consistency over time, and they have tended not to become political footballs too much. Is that the right approach for how we frame the outcomes that we want to achieve? How do we ensure that Scotland has the ability to set that framing, rather than being constrained by the remit of the UK fund? Are there other approaches?

**The Convener:** Given that Patrick Harvie mentioned Ruchir Shah, I invite him to reflect on that first.

**Ruchir Shah:** The national performance framework is the right framework. The reason for that is simple: this iteration of the national performance framework and national outcomes is specifically backed by, and linked to, the sustainable development goals, which are probably the closest thing that we currently have to a strategy for a more positive planet, given everything else that is happening around the world. It has absolutely the right kind of focus. It covers human rights and equality aspects, as well as the link to the responsibility for tackling climate change. It is a really good framework for us to use, because it has a lot of trust from a whole range of people and sectors, as well as international credibility, because it is now integrated with the sustainable development goals.

**The Convener:** Would anyone else like to reflect on whether it is the right model and, if not, on what else we could use?

**Ross Johnston:** It is the model that we follow and work to as a public body. It is a very helpful framework for us when we are deciding on our priorities. However, regardless of what framework one is working to, there are a couple of options for how to deliver outcomes. There is the option that is in the current system of having horizontal themes, in which all the money is to be spent and delivered in a way that complies with common principles, such as fairness, equality, human rights, sustainability or inclusiveness—the phrase of the moment is inclusive and sustainable economic growth; there is the option of designing a scheme that includes such fundamental

principles, in which all the money needs to demonstrate either that it complies with them or that it is not having an effect that is contrary to those aims. Above that, there can be targeted funds that deliver specific outcomes. It is important to remember the relevance of both options to delivering the framework of policy outcomes that the money is trying to achieve; they both have a role.

**The Convener:** There is a certain coherence about all that in relation to where we are. Do any witnesses have a different view, or any other ways in which we could achieve the outcomes for the country that we want?

**Patrick Harvie:** I will just emphasise the comparison between what is being discussed here and the limited amount that we know about the UK plans and the remit of raising productivity and tackling inequalities between communities. Does that give enough flexibility? Obviously, it is not too late to influence the detail of that when it is designed. Would that give enough flexibility, or do we need to encourage a different and broader approach?

**The Convener:** That is a good question.

**Kate Still:** We need to encourage a broader approach—that remit could become quite narrowly defined over time. The national outcomes are great and people have bought into them and into a smart sustainable future. However, we cannot forget the needs of communities and people—in particular young people, who are frightened about the future in terms of Brexit. They need to feel that the services that are being designed put them at the centre, as well as thinking about the programme requirements. There needs to be a sense that the satisfaction of the beneficiaries—the people and communities at the centre of this—with the whole system is taken into account and drives the system.

**The Convener:** Nora Uhrig was nodding her head—does she want to add something?

**Nora Uhrig:** We found that it is particularly difficult for smaller and on-the-ground organisations to apply for funding, because of the administrative burden and other issues that have been mentioned.

What Kate Still said makes a lot of sense. If her point is taken into account, it will become easier for organisations that are a bit smaller, and which previously thought that it was not an area that they could get involved with, to engage more. Through that, we will reach more marginalised groups and people with protected characteristics.

**The Convener:** I think that there is a general consensus around that, given what I am hearing around the table. As nobody else wants to make

any particular points that have not been raised today, or that they want to ensure go on the record, I will bring this very useful session to a close. Although it was slightly shorter than expected, we got a lot of good information in a short space of time, which has given us a good idea of the architecture and map that we will need in order to deal with the topic in the future.

I am sincerely grateful to all our witnesses for coming along this morning. The session will help to draw information together for our report, which we will produce some time in the autumn; hopefully, witnesses will see some of their input reflected in that report. In the meantime, I will now suspend the meeting to allow for the changeover of witnesses.

11:51

*Meeting suspended.*

11:56

*On resuming—*

## Additional Dwelling Supplement

**The Convener:** Under item 3, we will take evidence on the additional dwelling supplement from Kate Forbes, the Minister for Public Finance and Digital Economy. The minister is joined by her Scottish Government official Ewan Cameron-Nielsen. I welcome our witnesses to the meeting and invite the minister to make an opening statement.

**The Minister for Public Finance and Digital Economy (Kate Forbes):** Thank you for the invitation. I know that the committee is here to quiz me, but I am interested in seeing the committee's scrutiny when it comes to ADS.

Looking back to the introduction of ADS, members will be aware that that was done partly in response to the UK Government's decision to introduce the higher rate of stamp duty land tax and the obvious impact that that would have on the housing market and BGAs.

Although ADS has generally been successful in raising revenue, I recognise that, during the past few years, concerns have been expressed, particularly with regard to specific individual cases. I have two points to make about the calls for change, many of which I am sympathetic to. First, they highlight the need for us to think more generally about how we make changes to devolved taxes. Secondly, in terms of the changes that are called for, we need to think about how we balance specific individual situations with the potential for unintended consequences in a complex tax.

**The Convener:** The committee has heard a number of concerns, including in a useful paper from the Law Society of Scotland. Beyond those concerns, other issues have been raised about the operation of ADS and about house buyers who were not intended to be subject to the tax having to pay it, and then being unable to reclaim it through the process that is available to others. Is that the case? What does the Government intend to do about it?

**Kate Forbes:** When it comes to that particular example, one of the challenges that came through to the committee when it took evidence was the challenge around the evidence base.

Our main source of evidence is Revenue Scotland, which takes evidence that is applicable only to its requirement to collect taxes. The impact on the private rented sector, which faces a host of different challenges, has remained steady at 15 per cent. The SFC's evidence suggests that any foregone revenue is being replaced by the policy

objective, which is to encourage first-time buyers into the market. When it comes to supporting the build-to-rent sector, we have the exemption that was called for in the committee's stage 1 report on the Land and Buildings Transaction Tax (Amendment) (Scotland) Act Bill to ensure that there is an exemption on six properties or more.

Our general analysis is that the private rented sector, build to rent, and the housing market more generally remain strong.

12:00

**The Convener:** The committee received written evidence from an individual about a specific issue, in which Murdo Fraser had a particular interest. Is that the issue that you want to raise, Murdo?

**Murdo Fraser:** Yes. We could probably put the different issues that we raised during the round-table discussion into two groups. One group of issues is to do with the distortion effects of the tax. That relates to the issue that you talked about in the private rented sector, and is one basket of issues to be looked at.

Another group of issues concerns anomalies with the tax. One specific anomaly came up. Committee members will remember the Land and Buildings Transaction Tax (Amendment) (Scotland) Act Bill. The Government introduced the bill to deal with a specific anomaly that had been introduced by the original legislation, which I think everyone recognised was not an intended consequence of that legislation. The anomaly was that a couple, if they had bought a property in joint names but the previous property that they had occupied had only one name on the title, were not able to reclaim ADS and faced a penalty. That was not in the spirit of the original legislation. That anomaly was cured by the change to the legislation.

It has now come to light that another anomaly has arisen relating to slightly different circumstances, in which a couple who are living at separate addresses buy a property together. If only one of them has previously owned a property, they cannot reclaim ADS. Consequently, people who are, for example, not living together but who get married and move into a property that they own jointly are being penalised. I assume that the Government does not intend that to be a consequence of the legislation and that it did not set out to penalise people in that situation. Do you recognise that that is an issue? Do you have any plans to deal with it?

**Kate Forbes:** On the evidence about those inconsistencies, we look at a range of things, including my correspondence, where such issues have been raised. As I said, I am very sympathetic to a number of the issues that were raised at the

round-table discussion and which are raised with me in correspondence. We start from that position, so the issue is then how we fix it.

There is a difference between the Land and Buildings Transaction Tax (Amendment) (Scotland) Act 2016, which changed the previous unintended anomaly, and the Land and Buildings Transaction Tax (Tax Rates and Tax Bands etc) (Scotland) Amendment Order 2018. The former changed the position in cases in which two people who are living together, only one of whom is on the title, go on to buy a property. However, in that scenario it is possible to point to a single property and deem that both buyers have disposed of their previous main residence when that was sold. I mention that because the legislation has a test about identifying a main residence that is then replaced. That change was quite a minor one. Although there are similarities between that and the anomaly that you are talking about, the latter goes right to the heart of the purpose of the legislation, which is about identifying a main residence that is then a secondary residence to a new main residence.

I am sympathetic to the individuals who find themselves caught up in the situation that you described, but making changes in that regard would undermine the main purpose of the legislation, which is about someone having an additional dwelling. There are a range of different scenarios with which you could illustrate the scenario—for example, one person is renting and the other owns a property, or two people own properties. Either way, there is a previous residence and then there is another new residence. Therefore, the new residence would be an additional residence. If the committee were to provide evidence of that issue being a problem, and were to recommend how to resolve it, I would be open to considering that. However, such a change would be a far more significant change to the main test in the additional dwelling supplement legislation than the previous amendment that was made.

That may sound like a cop-out, but I am making a specific point. When Revenue Scotland was before the committee, it talked about having more than 70 worked examples in its guidelines to provide advice and support for people in identifying whether they are eligible for ADS. Making changes to the legislation would make it more complicated. Where we need to make changes, we should make changes, but I would want to know how extensive the problem is and to be very careful that making changes would not take away the main test in the legislation, which would open it up to tax avoidance.

**Murdo Fraser:** Thank you. That was a very helpful answer. On your final point about the

extent of the problem, I recognise that there might be only a very few isolated examples of what we are talking about. However, you will appreciate that, for the individuals involved, it might represent a very significant cost that they were not expecting. The previous example that I highlighted, which with other cases led to the 2016 act, involved a couple who ended up with an additional tax bill of £13,000. That is a huge additional burden for a young couple. I appreciate that the situation might impact on only a very small number of people, but for those individuals, it is a very substantial issue, so I ask you to reflect on that.

The committee has talked quite a bit about the appropriateness of introducing an annual finance act to allow us to sweep up such issues every year, instead of having to rely on new primary legislation either every year or an ad hoc basis. Would that be sensible?

**Kate Forbes:** As you will know, our consultation on the future of devolved taxes closed last week, and we are analysing the responses to it. I am very sympathetic to the idea of mopping up changes on an annual basis, but the matter would need to be taken forward with the close involvement of the committee and Parliament. With any such changes, there will always be a tension between scrutiny and efficiency.

The UK Government has been able to improve and amend the higher-rate additional dwelling element of SDLT in a number of ways, but we have made only this one change which still, although it was expedited, had to go through three stages and a considerable number of amendments at stages 2 and 3. I suggest that our legislative timetable does not allow for multiple changes of that kind.

Again, I say that I look forward to the committee's report, but I think that there is consensus on where we could make changes to improve ADS. However, the question is what the process would be; ADS illustrates the need for a means of mopping up, in a way that does not absorb time unnecessarily, changes that are, although required, minor and agreed by everyone.

**The Convener:** That was quite useful, minister. Whether we would be talking about an annual tax bill or an annual care and maintenance bill—which are, in effect, the same thing—I suggest that even though required changes might be minor, the Government would still have very much to bear in mind the potential for unintended consequences if such a bill were subject to significant amendment.

**Kate Forbes:** Yes—I go back to my point about the need to weigh up scrutiny and efficiency against any such changes. We would want the changes to be of the kind that are frequently

raised with me and other members by stakeholders—changes that appear to be quite obvious and which would improve the tax.

That is why I started off my remarks by setting out how ADS was introduced, because it illustrates my point. I am able to sit here and defend ADS as a good idea, but policy preferences aside, the fact is that our hand was forced and we had to do something because of the UK Government's introduction of the higher-rate additional dwelling element and the impact on the market and on BGA. As a result, the process for introducing ADS was expedited, which illustrates how we are having to respond to external forces. It is far better to do such things well first time, but there should be some way of making it easier to change and improve things later, if we have to move quickly to do so.

**Alexander Burnett:** First, I refer members to my entry in the register of members' interests with regard to construction.

I note that you said that Revenue Scotland is able to provide data only on sales that actually happen, but this is actually more about sales that do not happen and the impact on land and buildings transaction tax and other aspects of the sector. I appreciate that collecting such data is complex work, but is it not false to conclude that everything is all right just because the revenue figure has remained constant? Does that not miss out the sector's potential?

How might we go about collecting better data? Should we recognise that this is an issue that is faced by the sector? Given the complexity of the sector, the data that is coming in and the impact on our economy, is this not actually part of a wider problem?

**Kate Forbes:** I will answer the question about data first, and then the question about the sector in general.

As I think I have explained, we rely on the data that is collected by Revenue Scotland. With ADS, there is a one-page form that asks for very limited information. I can supply the form to the committee if it would be of interest, but I point out that it does not ask the questions that would provide the qualitative data that we might be more interested in, such as whether the property is being used as a holiday home, is a buy to let, or whatever. We cannot necessarily demand these things through Revenue Scotland. It is that organisation's business to decide what information to ask for.

I, too, have consistently asked stakeholders for specific evidence, but—I am not saying this to undermine it—a lot of that evidence is very anecdotal. That is fine, because there are individuals who are in difficult circumstances, and if we were looking to make a significant change

that could have unintended consequences and open up tax-avoidance issues, we would want to know whether the problem is extensive and not just something on the periphery. That kind of evidence from stakeholders is of significant value: to an extent, we have to depend on it as much as we depend on the quantitative data from Revenue Scotland.

As for the impact on the housing market more generally, I certainly cannot claim that any success with regard to that market—or, indeed, the proportion of first-time buyers in the market—is down to ADS, nor can I say that it has been single-handedly responsible for challenges. Again, we look to SFC data as well as to responses from stakeholders for that sort of thing. As I said to the committee in January on the changes to land and buildings transaction tax, stakeholders regularly tell me that wider economic considerations are far more likely to be a factor in their decision making. If we look at the overall figures, we see that the private rented sector, which I appreciate is just one example, accounts for a steady 15 per cent of households.

I am interested in how we can better support the small to medium-sized enterprise house-building market, but I think that there are better ways of doing so than through ADS, although it is a consideration. At the moment, we have different conditions for SME applicants for housing support from, for example, the building Scotland fund, which has a lower threshold with regard to project size. That is probably a better and more flexible way of ensuring a thriving SME house-building market than tweaking ADS would be.

**Willie Coffey:** Is there a case for simplifying the information that is available to the public, so that people do not feel that they have to walk into a lawyer's office to discover the consequences of, say, purchasing a house? Can we offer them something simpler or some helpful advice to assist their decision making before they embark on transactions?

**Kate Forbes:** Yes—and that takes us to the heart of this entire debate about how we ensure that the system is sufficiently nuanced to deal with specific individual circumstances, while reducing the complexity of the tax itself. The tax is complex because it takes into account personal circumstances rather than transactional values and so on. I know that Revenue Scotland has tried hard to address the issue by providing more than 70 worked examples, but that just shows how incredibly complicated it is.

The figures for inclination to reclaim ADS are actually more heartening. When you register your inclination to reclaim ADS, advice will be available at that point, particularly through Revenue

Scotland, but if there are ways of simplifying things, I would be delighted to hear them.

**The Convener:** No one else has indicated that they wish to take part. I thank the minister for coming along and giving evidence, and I close the public part of the meeting.

12:14

*Meeting continued in private until 12:17.*



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