



OFFICIAL REPORT
AITHISG OIFIGEIL

Finance and Constitution Committee

Wednesday 6 November 2019

Session 5



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FINANCE AND CONSTITUTION COMMITTEE

25th 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)

*Angela Constance (Almond Valley) (SNP)

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

*Patrick Harvie (Glasgow) (Green)

*Gordon MacDonald (Edinburgh Pentlands) (SNP)

*John Mason (Glasgow Shettleston) (SNP)

*Alex Rowley (Mid Scotland and Fife) (Lab)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Kate Forbes (Minister for Public Finance and Digital Economy)

Scott Mackay (Scottish Government)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Finance and Constitution Committee

Wednesday 6 November 2019

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (Bruce Crawford): Good morning, colleagues, and welcome to the 25th meeting in 2019 of the Finance and Constitution Committee. I remind members to do the usual with their mobile phones, please.

Under agenda item 1, do members agree to take item 4 in private?

Members indicated agreement.

Subordinate Legislation

Budget (Scotland) Act 2019 Amendment Regulations 2019 [Draft]

09:31

The Convener: Item 2 is consideration of the Scottish statutory instrument that provides for the 2019 autumn budget revision. We will have an evidence session on the regulations before we come to the motion for which our approval is sought under item 3.

We have been joined by the Minister for Public Finance and Digital Economy, Kate Forbes, who is accompanied by Scott Mackay of the Scottish Government. I invite the minister to make a short opening statement if she wishes to do so.

The Minister for Public Finance and Digital Economy (Kate Forbes): I will speak briefly, convener. Thanks for having me here. As members of the committee will know, the autumn budget revision provides the first of two opportunities to formally amend the Scottish budget for 2019-20. We have once again provided a brief guide to the revision, which officials prepared for committee members.

As usual, this year's autumn budget revision deals with four different types of amendments to the budget—a few funding changes, technical adjustments that have no impact on spending power, a small number of Whitehall transfers and some budget-neutral transfers of resources within portfolios. The net impact of all those changes is an increase of £536.9 million in the approved budget, to take the budget to just over £43 billion. Table 1.2 on page 5 of the supporting document shows the approved portfolio budgets following the changes that are sought in the revision.

I will briefly go through the changes in turn. The first set of changes includes the deployment of funding across multiple portfolios to cover most of the costs incurred by public bodies as a result of the increase to employer pension contributions; additional funding for the teachers pay settlement; financial transactions to transport for the low-carbon transport fund; and further funding for peatlands. In total, those changes increase the budget by £497.1 million.

The second set of adjustments are technical ones that have a net impact of £26.9 million on the aggregate position. Those adjustments are necessary to ensure that the budget is consistent with accounting requirements and with the final outturn that will be reported in our annual accounts.

Thirdly, there are the Whitehall transfers and allocations from the Treasury. There is a net positive impact on the budget of £13.1 million that relates to small transfers for money advice services, the sure start maternity grant, the single gateway project, the govtech catalyst process, cybersecurity and Forestry Commission UK cross-border functions.

The final part of the budget revision concerns the transfer of funds within and between portfolios to better align the budgets with profiled spending, which committee members will be familiar with. As in past years, there are a number of internal portfolio transfers that have no effect on portfolio totals but ensure that internal budgets are monitored and managed effectively. All those transfers between portfolios are noted in the supporting document.

As we move towards the financial year end, we will continue—in line with our normal practice—to monitor forecast outturn against budget and, wherever possible, seek to utilise any emerging underspends to ensure that we make optimum use of the available resources in 2019-20 and proactively manage the flexibility that is provided under the fiscal framework agreement between the Treasury and the Scottish Government. I will provide the committee with a mid-year report on revenue and spending to date alongside the spring budget revision when it is published, to improve the transparency of the budget management process.

I am happy to answer any questions.

The Convener: Thank you. Adam Tomkins will begin our questions this morning.

Adam Tomkins (Glasgow) (Con): Good morning, minister. You have provided the committee with a document that is called—correctly—“A brief guide to the 2019-20 autumn budget revision”. I refer you to paragraph 6 of that document, on the funding changes, which amount to £497.1 million. It says:

“The additional funding is mainly sourced from Barnett consequential, the Reserve and additional tax receipts.”

I have three questions about that sentence. First, what do you mean by “mainly”? Secondly, what is the split between what comes from Barnett, what comes from the reserve and what comes from the additional tax receipts? Thirdly, which additional tax receipts are you talking about?

Kate Forbes: The word “mainly” relates to pensions. Was that your question?

Adam Tomkins: No. The document says:

“The additional funding is mainly sourced from Barnett consequential, the Reserve and additional tax receipts.”

That implies that there are sources in addition to those three sources, but they are not specified. I want to know what they are.

Kate Forbes: Understood. Table 1.7a is probably useful here. It shows that £407.5 million of funding has already been drawn down and is anticipated in arriving at the final budget figures. That is augmented by additional allocation during the progress of the budget bill through Parliament, including the late consequential that are shown separately in table 1.7a, which the Treasury allowed us to carry forward as they were allocated so late in the day.

The additional £497.1 million of reserve funding is then used to support the autumn budget revision changes. We do not ring fence sources of the funding in respect of how they are to be spent. As you will see from tables 1.7a and 1.7b, the split of that £497.1 million comes from Barnett consequential and the reserve, and within the reserve there will be additional tax receipts as well as carry-forward figures. Does that answer your question on the use of the word “mainly”?

Adam Tomkins: So the money that is in addition to the Barnett consequential, the reserve and the additional tax receipts is money that was carried forward from the previous financial year.

Kate Forbes: Yes. Table 1.7a shows £497.1 million as being

“Deployed at Autumn Budget Revision”.

If you look at table 1.7b, you will see that, under the heading

“Sources of funding for proposed changes”,

there is £227.2 million for

“Deployment from unallocated funds”

and £269.9 million for the Treasury’s

“contribution to fund increase in employer pension costs for public bodies”.

It is quite clear that that has come through Barnett consequential specifically for employer pension increases.

The £227.2 million comes from the reserve. What is in the reserve is highlighted in table 1.7a, which shows the closing reserve balance that is carried forward from last year. That will include all forms of funding that have been put into the reserve. The breakdown of some late consequential and some carry forward from the movement in provisional outturn is provided above.

Adam Tomkins: Okay. What are the additional tax receipts?

Kate Forbes: Perhaps Scott Mackay can talk about that.

Scott Mackay (Scottish Government): There was £5 million over what was forecast. I am not sure whether that was detailed in the fiscal framework outturn report.

Kate Forbes: I believe that it was.

Scott Mackay: I am not sure whether I have that with me. From memory, the additional tax receipts over and above what was previously forecast were about £5 million.

Kate Forbes: That is the figure that I have.

Scott Mackay: I can check that.

Adam Tomkins: Are we talking about income tax or land and buildings transaction tax?

Scott Mackay: It is from fully devolved taxes.

Adam Tomkins: Fully devolved taxes?

Scott Mackay: Yes.

Adam Tomkins: It is therefore not from income tax.

Scott Mackay: It is not. That is reconciled much later in the process.

The Convener: If I recall correctly, most of it will be from LBTT.

Adam Tomkins: Right.

The Convener: Patrick, do you have a follow-up question on that area?

Patrick Harvie (Glasgow) (Green): No. It is okay.

Murdo Fraser (Mid Scotland and Fife) (Con): I want to ask about the allocation of £141 million to the communities and local government portfolio to fund the teachers' pay settlement. Has that money now been paid to councils? If not, when will that happen?

Kate Forbes: That movement to teachers' pay has been made, and that is why it is included in the revision.

Murdo Fraser: Have local councils already had that money?

Kate Forbes: That figure—the £141 million—has been deployed. That is just for 2019-20, of course.

Murdo Fraser: So councils have had that money in the current year. That is fine. Will the local government budget be rebased to include that figure?

Kate Forbes: The amount that local authorities will get for the next financial year will be discussed with the Convention of Scottish Local Authorities as part of the budget process. The financial contribution for the teachers' pay deal has already been agreed for last year, this year and next year.

Next year, it will be £156 million, which will bring the total to £307 million.

Murdo Fraser: All right—thank you.

John Mason (Glasgow Shettleston) (SNP): You referred to table 1.7b, which shows £269.9 million for the

"HMT contribution to fund increase in employer pension costs for public bodies".

Will you explain to the committee the background to that and why it has come about?

Kate Forbes: It came about because of a change that was made at the Treasury level to increase the discount rate, which had a flow-through impact on employers' pension contributions in the public sector. Initial commitments by the Treasury were that those additional costs would be funded in full, particularly for the health sector, so the Scottish ministers have been pressing the UK Government to meet the full additional costs, which come to over £500 million.

The Barnett consequential of £269.9 million are highlighted in the table, and some additional money came from the Treasury for health. In total, the Barnett consequential that have been received to meet the £500 million cost of the increased employers' contributions come to £391.8 million. The Scottish Government has tried to mitigate the shortfall with some funding, and in some cases that has been done within portfolio areas rather than with additional resource.

John Mason: Okay. It is obviously rather technical. If we have received a total of £391 million, we are apparently short of about £108 million or £109 million. For local authority pension funds, the money is sitting in a pot. I take it that we are talking about other public employees whose money is not sitting in a pot and whose pensions are paid for out of normal expenditure.

Kate Forbes: Yes. Basically, it relates to the national health service, teachers, the civil service, the police and fire services and judges.

John Mason: Right.

Kate Forbes: It is quite specific. Do you want the full technical details?

John Mason: Try me.

Kate Forbes: Employer contributions for public service pensions are set by a quadrennial scheme and valuations are based on Treasury directions. They specify the discount rate as being the superannuation contributions adjusted for past experience—or SCAPE—rate. When the Treasury changes the discount rate, it has a knock-on impact on employer contributions, which then hits the public sector. At the time, the UK Government

committed to meet the costs, particularly for health, but they were not met in full.

09:45

John Mason: Okay—thanks.

The Convener: John, do you have a supplementary question on that?

John Mason: Well, that is where I am going.

The Convener: On you go.

John Mason: Are they real cash payments? I presume that, if the discount rate is changing, it means that the liability for people's pensions over the next 40 years or whatever is changing, but the actual cash that will be paid out will be spread over the 40 years. What is the cash position?

Kate Forbes: As it is so technical, I ask Scott Mackay to answer that.

Scott Mackay: They are increases in the amount of cash that needs to be paid across in respect of each of the employers.

John Mason: Who are we paying that money to?

Scott Mackay: We are paying it to the Treasury. As you rightly said, they are unfunded schemes. All the contributions are paid in and there is an assessment of where that money falls in relation to the commitments in that year. That is then topped up to meet all the cash outgoings.

John Mason: Although there is not an actual fund, the Treasury is, in effect, sitting on the contributions.

Scott Mackay: The Treasury takes all the contributions and tops them up, except for police and fire pensions, where the Scottish Government is 100 per cent responsible for the full costs of the pension scheme.

John Mason: Okay.

The Convener: Can I dig down a bit more into the issue with the Treasury? Can you confirm that there is a potential shortfall, as I guess the Government would call it, of £109 million? Where have the discussions with the Treasury got to in that regard?

Kate Forbes: Initial commitments were made, particularly for health, which was distinguished from the other areas. At the beginning, it was announced that, following discussions with the Treasury, a commitment had been made that the additional costs would be fully funded, particularly for health, in light of the fact that they arose from a Treasury decision—from a policy decision on health.

When we came to the allocation, Scotland received a consequential that was based on the allocation to the Department of Health and Social Care, but there are differences in the make-up of the workforce in the Scottish NHS versus the Department of Health and Social Care, so the allocation was not sufficient to meet the full costs of the increase in employer contributions for the NHS in Scotland. The Scottish Government stepped in to mitigate the gap, as it were, between what was needed to cover the cost and what was provided.

The Convener: Where have the discussions with the Treasury got to?

Kate Forbes: They continued for some time. The Treasury has now made its allocation for the pension costs, and I do not think that we envisage any additional consequentials coming to cover the costs. The consequential was given as a result of discussions with the Treasury. That has been provided and we have stepped in to mitigate the gap.

The Convener: John Mason has a supplementary question, but I will bring in Neil Bibby first.

Neil Bibby (West Scotland) (Lab): So the Scottish Government has stepped in to cover the full costs for the health service. The £207.7 million covers the total increase for health.

Scott Mackay: There was already a baseline contribution for pensions within the health uplift for that year.

Neil Bibby: So there will be no shortfall for health.

Scott Mackay: That is right.

Neil Bibby: That is the £109 million. You have allocated £60.8 million to the communities and local government budget. Does that cover the full costs of local authority increases in pension contributions?

Kate Forbes: Where are you seeing that figure?

Neil Bibby: It is in annex A, where it says:

"Communities & Local Government: Additional funding for the increase in employer pension contributions - £60.8 million"

Does that cover the full burden of the increase in local authorities? Will there be a shortfall there?

Scott Mackay: There is a shortfall.

Neil Bibby: Of how much?

Scott Mackay: That covers roughly 80 per cent of the costs of the teachers' pension contribution changes. It was an allocation of a proportion of the funding that we received from the UK Government, topped up to 80 per cent to try to

meet the costs. The assessment of what was affordable was that we could manage that 80 per cent contribution, which was broadly consistent with our commitment that there would be funding available for 80 per cent of the costs.

Neil Bibby: So local authorities could be facing—

Kate Forbes: Increased costs.

Neil Bibby: Of around how much, roughly?

Scott Mackay: The contribution covers 80 per cent of the costs—

Neil Bibby: So there would be another 20 per cent—

Scott Mackay: Another £15 million.

Kate Forbes: In respect of the other years, I do not know whether this is helpful, but I also mentioned—

The Convener: We will come back to that—John Mason wants to ask a question first, if Neil Bibby has finished.

Neil Bibby: If there are any other big areas in which we are facing shortfalls, it would be useful to know.

Kate Forbes: It is just the way in which we have divvied it up. We have provided 100 per cent for health, and we are responsible for 100 per cent of the costs of police and fire pensions. In other areas, we have sought to balance our funding contribution at broadly 80 per cent of the costs.

There are some areas in which funding is particularly tight and we have therefore tried to support 100 per cent of the costs, but in general that is the breakdown when it comes to covering the employer contributions.

John Mason: I want to follow up on one of the minister's answers to the committee. Minister, you said that this was a policy decision by the Treasury. Is that in fact the case? Did the Treasury have much leeway in that decision, or was it just dictated by the actuaries?

Scott Mackay: It is related to a technical decision on the future liabilities of the fund.

John Mason: Which is related to interest rates, the stock market and how long people live—all those things.

Scott Mackay: Yes, there are a lot of factors.

John Mason: That is right. So it is quite a technical adjustment.

Scott Mackay: It is.

Kate Forbes: It is worth saying that, at the beginning, it was recognised that the decision had been taken by the Treasury, and that is why there

was an initial commitment to meet 100 per cent of health costs.

Patrick Harvie: I am looking at the interdepartment transfers; I want to understand what is going on with those. The brief summary that has been provided indicates which specific measures those transfers are going towards. Are they being taken away from other priorities, or were they already budgeted for in relation to the things that are set out in the summary? If it is the latter, why were they not simply included in the first place in the budgets for the departments to which they are moving?

Kate Forbes: That is a fair question, and it comes up at most of the budget revision sessions. The reason why we do that every time is that, in the budget-setting process, the minister who is responsible for a policy has that funding line in their portfolio. However, when it comes to where the spending actually occurs, we make a transfer during the autumn budget revision.

The transfer from health and sport to education and skills—the £60 million—has come up in the past. It is a good example because, although midwifery and nursing training and education clearly falls within the health minister's responsibilities, the actual spending occurs in the education portfolio. That is the funding for 10,000 nursing and midwifery students' tuition fees across the academic year. Jeane Freeman is responsible for that policy area. It is right that, when there are discussions on the budget, there is maximum scrutiny and transparency around who is responsible. However, when it comes to the process of actual spend, the money is spent in the education portfolio. That would also be true for all the other transfers.

Patrick Harvie: That would be true of all the transfers. To be clear, then, none of the interdepartment transfers represents a change in what is intended to be spent.

Kate Forbes: No. The only increase in funding in any of these revisions comes through the funding points that we have already discussed in relation to pension contributions and so on, and through some small increases through Whitehall transfers. All the transfers are budget neutral.

Patrick Harvie: That is helpful, thank you.

I also wanted to ask about the smaller areas where you are increasing the budget line. For example, the low-carbon transport loan fund is getting an extra £17 million. How does the Scottish Government go about consulting on what the policy options might be when there is an opportunity to increase a budget line? The low-carbon transport loan fund is subsidised credit for businesses to buy vehicles. There may well be some merit in giving an incentive for low-carbon

vehicles, but there might be stakeholder organisations or members of the public who think that we would be better off spending that money on an increase in the community renewables fund, for example. How do those choices get made? In the main budget process, there is a lot of debate, scrutiny and lobbying, but to what extent is the autumn budget process open for members of the public or organisations to express a view about such choices?

Kate Forbes: The autumn budget revision is the last point in the process. The reason why we are discussing funding changes and revising the budget now is that either the decision was made later in the day or funding became available later in the day.

Theoretically, as these are quite technical changes, all the consultation around the revision process should have already happened in relation to moving funding or increasing funding for decisions that had been made already but too late in the day to be recognised in the budget. There should be that consultation and discussion, but it should be part of the budget process.

On that budget line in particular, I would be happy to provide more detail as to what discussions took place in the run-up to that funding increase. I assume that it would be for either the transport minister or the minister in charge of the environment portfolio to answer that question. I assume that it was in light of our decisions on transition to a low-carbon economy and additional investment in our climate change commitments.

Patrick Harvie: When would that specific decision have been made?

Kate Forbes: I would need to ask the minister responsible for the relevant portfolio, because they make the decision and then I take forward the funding changes.

Patrick Harvie: It would be helpful to know that. Thank you.

Alex Rowley (Mid Scotland and Fife) (Lab): I want to pick up on the last point about the internal transfers. The £120 million going into communities and local government, taking the school counselling services, for example—

The Convener: For the benefit of the other members, could you identify what table you are referring to?

Alex Rowley: It is in annex B.

Will that money be in local authorities' baseline budget next year?

Kate Forbes: Any discussions or decisions about baselining budgets or COSLA's budget are to be taken as part of the budget process. Those

conversations with COSLA will be starting soon—if they have not already started—once we have more detail on when the budget might be.

That particular £120 million is to ensure that every secondary school has counselling services, which also offer access for feeder primary and special schools. That specific funding supports the integration of those services to meet the costs of delivering the living wage for those services.

Where those budget lines are related to an initial decision or a decision that was taken about an initial sum of money that is a one-off, they will not be baselined. Where there is a clear commitment that has been made for more than one year and the service is clearly going to continue to be provided, the discussion has to take place with COSLA in relation to its overall funding settlement.

Alex Rowley: Is that not where you end up in difficulty? To take the example of the counselling services, local authorities advertise those posts on a temporary basis because of the uncertainty of the funding. I am aware of a similar example from Fife: general practices are getting mental health support workers attached to them, but, because of the funding uncertainties, their contracts are only temporary, which means that there is difficulty with recruiting and retention.

That type of budgeting—if I understand it properly—means that, where something is not built into the baseline, the local authorities or health and social care partnerships find that they have trouble recruiting and retaining staff for those very important services, because of the uncertainty. That is a result of the funds being shifted, rather than being put into the baseline. If the Government is committed to doing those things, why are they not in the baseline?

10:00

Kate Forbes: That is part of a much bigger discussion than that of just baselining those sums. It is also about giving long-term certainty and being able to move to, for example, three-year budgets, which is an issue that comes up in conversations with COSLA. Local authorities want to know what their budgets will look like not just this year but for the next three years. Unfortunately, that is not how our budget is set—at the moment, we do not even know when the budget will be—so it is difficult to look ahead to next year, let alone the next three years.

I recognise and appreciate that every area of the public sector is looking for long-term certainty, but it is a much bigger issue than baselining figures. It would help if our budgets were set in that way, so that we could pass on such certainty.

Alex Rowley: Do you recognise the difficulties that that type of budgeting is causing in areas such as mental health provision? You are trying to increase the provision, but recruitment is difficult because of the uncertainty of the funding. If you are committed to that, you should surely be able to put in the correct funding at the beginning of the year. If it was built into the baseline for local authorities, most of their employees would be employed full-time, although there would be no guarantees due to the one-year budgets.

Kate Forbes: That is why we have fully funded that service, in particular. I take your point about uncertainty, but it is not just a question of baselining. Discussions about the overall funding settlement will commence with COSLA soon, and it is for COSLA to discuss and make the case for what it believes are its funding needs in the long term.

I hear what you are saying about short-time recruitment, but decisions about how long local authorities can recruit for are for them to take.

Alex Rowley: I want to go back to the question that Murdo Fraser raised about the teachers' pay settlement. Perhaps I picked it up wrong, but you seemed to suggest that the local authorities are guaranteed funding from the Scottish Government for the teachers' settlement for the next two or three years, but you are not building that into the local authorities' baseline funding either.

Kate Forbes: Those are two different and separate discussions. One is the question of baselining funding in the future. However, the Scottish Government's financial contribution for the teachers' pay deal is agreed and public, and there is an awareness and understanding of what we have committed in support of that. The offer is a three-year deal of 3 per cent from 1 April 2018, 3 per cent from 1 April 2019 and 3 per cent from 1 April 2020, plus additional financial support of 4 per cent from 1 April 2019 to make changes to the main grade and promoted posts scales. COSLA represents the employers and the Scottish Government has agreed to fund the deal. It would not be appropriate for funding such as that to be baselined; it is a contribution that has been agreed, is in the public domain and is in addition to the funding settlement that local authorities will get.

The Convener: Item 3 is consideration of the motion on the order. I invite the minister to move motion S5M-19330.

Motion moved,

That the Finance and Constitution Committee recommends that the Budget (Scotland) Act 2019 Amendment Regulations 2019 [draft] be approved.—[*Kate Forbes*]

Motion agreed to.

The Convener: The committee will publish a short report that sets out our decision on the order. I thank the minister and her official for their evidence.

At the start of the meeting, we agreed that we would take the next agenda item in private, so I close the public part of the meeting.

10:05

Meeting continued in private until 10:31.

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