OFFICIAL REPORT
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Finance and Constitution Committee

Wednesday 12 February 2020

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FINANCE AND CONSTITUTION COMMITTEE
3rd Meeting 2020, 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:

George Adam (Paisley) (SNP) (Committee Substitute)
Sarah Boyack (Lothian) (Lab) (Committee Substitute)
Professor Francis Breedon (Scottish Fiscal Commission)
Kate Forbes (Minister for Public Finance and Digital Economy)
John Ireland (Scottish Fiscal Commission)
Lucy O'Carroll (Scottish Government)
Dame Susan Rice (Scottish Fiscal Commission)
Professor Alasdair Smith (Scottish Fiscal Commission)
Professor David Ulph (Scottish Fiscal Commission)
Andrew Watson (Scottish Government)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Finance and Constitution Committee

Wednesday 12 February 2020

[The Convener opened the meeting at 10:02]

Decision on Taking Business in Private

The Deputy Convener (Adam Tomkins): Good morning and welcome to the third meeting in 2020 of the Finance and Constitution Committee. Parliament is in recess, but due to the budget timescales this year, we have had to arrange a meeting this week. I am very grateful to the clerks and other Parliament officials for making this possible, and to members for rearranging their diaries.

We have received apologies from our convener, Bruce Crawford, and from Alexander Burnett, Alex Rowley and John Mason. I welcome George Adam and Sarah Boyack, who are attending as substitute members. I remind everyone to put their mobile phones in a mode that will not interfere with our proceedings.

Agenda item 1 is to ask the committee to decide whether to take in private consideration of future draft reports on the Scottish Government's budget for 2020-21. Do members agree to do that?

Members *indicated agreement.*

Budget Scrutiny 2020-21

10:03

The Deputy Convener: Agenda item 2 is evidence on the Scottish Government's budget for 2020-21—first, from the Scottish Fiscal Commission and then from the Minister for Public Finance and Digital Economy.

For the first panel session we are joined, from the Scottish Fiscal Commission, by Dame Susan Rice, who is its chair; John Ireland, who is its chief executive; and Professor Francis Breedon, Professor David Ulph and Professor Alasdair Smith, who are commissioners. I welcome you all. I invite Dame Susan Rice to make what I understand will be very brief opening remarks, before we move to questions.

Dame Susan Rice (Scottish Fiscal Commission): Good morning, convener. I have promised to speak for two minutes, so you can all look at your watches to check that I do. Thank you for asking us to give evidence. I am sure that you have all pored over the "Scottish Budget 2020-2021" document and our forecast report, "Scotland's Economic and Fiscal Forecasts February 2020", so I shall simply highlight the points that we think are most important.

The upcoming budget now reflects nearly all the implications of the fiscal framework, with some big elements kicking in this year. We note that this is the first time that an income tax reconciliation—in relation to the 2017-18 tax year—has had to be factored into the budget. The Government intends to borrow, as it can, to cover the shortfall. It is estimated that in the next tax year, however, the income tax reconciliation will be more than twice as high. With the Government borrowing this year and reserves being low, we signal the need to plan early for how to meet that future shortfall.

The budget also reflects the cost of the Scottish Government taking control of all devolved social security benefits, which adds more than £3 billion, or about 10 per cent, to resource expenditure. Less change is due to tax policy, which increases revenues by a bit more than £50 million, mainly due to freezing of the higher-rate threshold for income tax. Our economic forecast continues to assume that there will be a smooth transition to a trade agreement by the end of the year, with delays being seen as a downside risk. As all those moving parts kick in, the Government will need to monitor the budget continuously throughout the year.

Finally, we consider that the factors that I have just run through will have the greater impact on the budget than its timing—before the United Kingdom budget—this year, unless there are significant policy changes to come.

We should all take stock, again, at the time of the medium-term financial strategy, when a lot more will be clear. It might also be helpful if Parliament, the Government and the SFC were to get together to think through how the process should be managed if the UK budget timetable changes over the longer term.

We are happy to answer questions on the report.

The Deputy Convener: That was brief; I appreciate that. Thank you for those opening remarks.

Your economic growth forecasts anticipate “subdued growth” for the next five years for Scotland. Although the various forecasts for the UK do not anticipate growth being much higher, they are still more optimistic. What are your main reasons for your forecasts being a bit more pessimistic about Scotland than most forecasts are for the United Kingdom? What are the main policy areas that we should focus on in the budget to address that?

Professor Francis Breedon (Scottish Fiscal Commission): It is fair to say that in recent history productivity growth in Scotland has been weaker than that of the rest of the UK, although we think that that is a relatively temporary effect. That is the starting point for our assessment that there will be slightly weaker growth in Scotland.

It is fair to say that we do not think of our forecasts relative to UK forecasts; we do them as independent forecasts for Scotland.

The key issue is productivity growth, which is an important policy issue. Public investment and other public interventions can help in the productivity story, over the long run.

Professor Alasdair Smith (Scottish Fiscal Commission): Your question was what should be done in the budget about the growth forecast. The implication of Francis Breedon’s point is that that is not primarily a budget issue. You can think of the productivity issue in terms of what we need to do to get more high-quality and high-paying jobs in the Scottish economy. That is fundamentally not something that can be driven by the budget; other areas of public policy should probably be the main area of focus in that respect. If that is what your question is about, although I agree that it is a very important question for the Scottish economy, it is not primarily a budget question.

The Deputy Convener: One element of growth and one element of your forecasts pertains to earnings. A number of members want to ask detailed questions about earnings growth, but I will start. Your latest set of forecasts says that earnings growth in Scotland

“has continued to exceed ... earlier expectations”,

which has resulted in an upwards revision of £273 million to your income tax forecasts for 2020-21. You are also forecasting a year-on-year increase of about 6 per cent in income tax revenues for the same year. However, the Scottish Parliament information centre has told us that, despite that more optimistic outlook and higher taxes in Scotland, the benefit to the Scottish budget will be just £46 million. Why, given the more positive outlook and an increased tax burden for Scottish taxpayers of about £650 million, will public finances increase by less than one tenth of that amount?

John Ireland (Scottish Fiscal Commission): The way to look at that is to think about how our forecast has changed from our previous budget forecast. It is true that the economy and earnings have added about £320 million to the forecast, but a number of other things are pulling it down.

Certainly, our recosting of UK Government policy on pensions auto-enrolment has brought down our income tax forecast by £120 million. That is one of the countervailing factors. We also have outturn data for 2017-18 that brought the forecast down by another £110 million. That is all shown in a table in the report, which we can show you. There are increases due to earnings and Government policy, but a number of other factors are pulling down the forecast.

The Deputy Convener: I am sorry. That was a sudden stop.

John Ireland: It was a sudden stop because I had got to the end of what I had to say.

Tom Arthur (Renfrewshire South) (SNP): There is a difference between growth in Scotland and growth in the rest of the UK. However, on a per capita basis, the difference has reduced. Why is that?

John Ireland: Scotland’s productivity growth—which, in a sense, is the real driver of growth—is reasonably similar to that of the rest of the UK. The disparities come when we start adding things such as population growth. It is fair to say that, although productivity growth per capita in Scotland and in the rest of the UK have, in the past, been similar, population growth and employment growth have been greater in the rest of the UK than they have in Scotland. That explains the disparity.

Tom Arthur: Can you explain clearly, in a way that my constituents and other people in Scotland will understand, how population growth is benefiting the rest of the United Kingdom and leading to increased growth, as opposed to what is happening in Scotland?

John Ireland: If productivity is exactly the same in Scotland as in the rest of the UK, but there are more people in the UK and the number is growing more rapidly than it is in Scotland, the size of the cake grows more in the rest of the UK than it does in Scotland.

Tom Arthur: Is the difference in growth almost solely explained by differences in population?

John Ireland: The difference is also a little bit about labour market participation—the proportion of the population who work—but a lot of it is down to differential population growth.

Tom Arthur: Am I correct that the difference between growth in Scotland and that in the rest of the UK almost disappears entirely if we look at per capita growth among the working-age population?

John Ireland: That is the case, in the sense that productivity—output per person employed, which can be roughly approximated by the working-age population—is much more equal between Scotland and the rest of the UK. The difference is in the population.

Tom Arthur: Scotland has had a historical and long-standing structural issue with population growth. The question is what policies can be used to address differences in growth between Scotland and the rest of the UK. My understanding is that population growth is one of the key areas that must be addressed in order to address the difference in gross domestic product.

John Ireland: Population growth is important, as is the age distribution of a population. If, as I think is the case, there are more older people in Scotland who are not in the working-age band, that will cause a difference. You are right that population is a very important factor to consider in policy making.

Tom Arthur: Just so that I understand you entirely, in order for Scotland to match the growth rates in the rest of the UK, is it key that policies in Scotland increase not only the population but the working-age population? Is that, overwhelmingly, the key policy issue?

John Ireland: Yes. In a sense, it is a very arithmetical thing. That is the part of the sum that you need to think about.

Tom Arthur: I appreciate that we need to think about a number of factors, including the birth rate and inward migration.

Professor Breedon: In Scotland and the rest of the UK, growth in productivity per head is very disappointing. It is an issue for both regions. To say that population growth is the whole issue is somewhat to sweep under the carpet the fact that there is very disappointing productivity growth throughout the developed world. Productivity growth has been a difficult issue for economists to deal with for a number of years.

Tom Arthur: I appreciate that. Your answers have been helpful in clarifying my understanding that the difference in population growth is the main driver behind the divergence in economic performance. Obviously, the key levers for population growth rest at Westminster, not with the Scottish Parliament.

Professor Smith: I will reinforce what Francis Breedon said. The difference in population growth and in growth of the working-age population might be the main reason for the difference between growth in Scotland and that in the rest of the UK. However, it is arguable that the key economic issue is productivity, which is, as Francis Breedon said, common to Scotland and England. It is interesting to look at the differences between Scotland and England, but that should not distract the committee too much from the fact that both parts of the UK have a problem with productivity, compared with historical standards.

The Deputy Convener: Other members want to come in on that point.

10:15

Murdo Fraser (Mid Scotland and Fife) (Con): Good morning. The most recent set of labour market statistics, which came out about three weeks ago, show that the Scottish unemployment rate is more or less equivalent to that for the UK. In fact, it tends to track the UK rate quite closely, although sometimes it is higher and at other times it is slightly lower. However, the Scottish employment rate is substantially lower than that for the UK. The gap is now 2 percentage points, which is the widest it has been for two decades. Is the lower employment rate a cause or a symptom of lower economic growth, or is it a bit of both?

Professor Breedon: That is a very hard question to answer. You are right to suggest that participation requires both sides. We can also say that a party's willingness to participate depends partly on what they will get if they do so. The participation rate is one aspect of the question, and the other concerns alignment of demographics. However, I think that the question is more about participation by the working-age population.

Murdo Fraser: Yes.

Professor Breedon: All I can say is that you are right to suggest that there are push-and-pull factors in whether people choose to participate. However, the question is whether low participation contributes to low growth or low growth contributes to low participation.

Professor David Ulph (Scottish Fiscal Commission): I add that, other things being equal, low participation shows up in lower GDP. If you want to use participation to account for growth, the approach will have to be more about a growing number of people participating in the labour market. The rate of change in participation matters more for growth.

Murdo Fraser: Thank you.

John Ireland: I add that I caution against looking at the most recent observation on employment. If my memory is correct, it dipped down quite a lot and was then out of trend with previous employment figures.

Murdo Fraser: Okay—although, historically, the employment rate in Scotland has lagged behind the UK average. If we were able to have an employment rate that matched the UK average, what impact would that have on our economic growth and our income tax receipts?

Professor Breedon: As far as the numbers are concerned, that would be a one-off. As David Ulph said, it is the increase in participation rather than its level that matters for growth. You would get a temporary boost in growth, but unless John Ireland has the numbers at his fingertips, I cannot give you a figure for that. However, there would be just a temporary boost to growth as the participation rate matched that in the rest of the UK, then growth rates would go on as before.

Professor Ulph: Increased participation would certainly raise income tax levels. You could, to an extent, drive growth in participation in order to make the income tax take grow faster.

John Ireland: If you want hard numbers, you can look at the table that I referred to earlier. On the change from our previous budget forecast for the next financial year's income tax revenue, the employment data knocked £48 million off our forecast income tax. You can see that that is roughly equivalent to the increase in income tax revenue from the Government's policy.

Murdo Fraser: Okay. Thank you. To summarise, you are saying that increasing the number of people who are active in the workplace would also increase income tax revenues, which would benefit the Scottish budget. I see that you are nodding, which is fine.

John Ireland: We can say yes.

Dame Susan Rice: We are all saying yes.

Murdo Fraser: It is just that the *Official Report* cannot pick that up from your nodding, you see. [*Laughter*.] Thank you.

The Deputy Convener: Thank you, Mr Fraser. I know that you have questions on tax, and we will come back to those in a little while. First I want to bring in Gordon MacDonald and Neil Bibby on the current question.

Gordon MacDonald (Edinburgh Pentlands) (SNP): The SFC's forecast for Scottish earnings growth has been revised up for every year that it covers. Will you give us the background to the reason for those increases? Also, what assumptions have you made about the tax aspects of the UK Government's budget? What impact could that have on our overall tax take? We have already talked about the figure of £46 million.

Professor Breedon: On earnings growth, a long-running puzzle is that the very low level of unemployment that we have seen has not been pushing through into higher earnings. All forecasters have been struggling slightly to understand why we have not had stronger earnings growth in the face of such low unemployment.

What we have seen in the latest data is that the tight conditions in the labour market are, finally, beginning to result in growth in earnings. The position that we have taken in our forecast is that the unemployment rate has got to the point at which the labour market is genuinely tight, and therefore earnings will begin to push up as scarce resources go up in price.

We have factored into the forecast the impact of tax and expenditure changes in the UK. However, those things do not make a lot of difference to our forecasts for the Scottish economy. They are a relatively minor factor. Is that the issue that you picked up on?

Gordon MacDonald: I will come back to that.

The latest forecast implies that earnings growth in Scotland will match that in the UK from 2020. If it continues to match UK earnings growth, will that make much of a difference, and will it have an impact on income tax revenue?

Professor Breedon: It would have a big impact on income tax revenue. Earnings growth is a big driver of tax revenue.

Gordon MacDonald: Would that result in any change in the profile of people who are higher earners and pay the top rate of income tax?

Professor Breedon: It depends on what happens to the thresholds. However, for the given set of thresholds, faster earnings growth will push more people into higher tax bands. In a sense, with a given percentage growth in earnings, there will be a higher percentage growth in tax revenue. Therefore, it is a very important aspect of the forecast.

Gordon MacDonald: Has that been reflected in the forecast?

Professor Breedon: Yes.

Gordon MacDonald: What other recent changes have been included in the forecast that you have produced to account for uncertainty and the margin of error?

Professor Breedon: Are you interested in the process?

Gordon MacDonald: Yes.

Professor Breedon: As you know, this round has been slightly unusual. We normally have a UK forecast from the OBR that we can use for our Scottish forecast. This time, we have used a mixture of different forecasts and have brought in another forecast for UK macro determinants. That forecast is run by the National Institute of Economic and Social Research and replaces the OBR forecast, which is out of date. We have also used some older OBR forecasts for things that we cannot pick up from the NIESR forecast.

It has been quite a different procedure for us, which inevitably means that there is a bit more uncertainty than normal. I cannot quantify how great that uncertainty is, but the mismatch between the UK's fiscal forecast and ours definitely makes the process slightly more complicated. We are pretty happy that the use of another forecaster to deal with that issue on the macro side has been relatively smooth—the procedure looks like it has worked well. As a replacement, we are happy with it. It is not ideal, but it has worked relatively well.

Gordon MacDonald: If producing the Scottish budget before the UK budget becomes normal, what needs to change to increase the level of certainty? The OBR figures that the SFC is using are from last March. Is that right?

Professor Breedon: We used a mixture, but, yes, that is right.

It is not so much about the timing of the budget as it is about the existence of an OBR forecast. Normally, there are two OBR forecasts in a year. That is key for our forecasting, rather than the timing of the budget. We can match to a different OBR forecast—it does not have to be the one that relates to the budget. As we have demonstrated, not having an OBR forecast is doable, but it is not ideal.

Gordon MacDonald: What impact could any change to personal allowances and national insurance contributions have on Scotland's income tax take?

Professor Breedon: We have to wait and see what happens in the UK budget to see what impact those things will have.

Gordon MacDonald: What has been reflected in the figures?

Professor Breedon: We have not gone into detailed policies. We have taken into account some impact from more Government spending, but we have not picked up on the effect of individual policies because we want the UK budget policies to be fully set out and costed before we introduce the individual issues. We have not done anything on individual measures.

Gordon MacDonald: So there could be a substantial change to your forecasts if there was a major divergence from where we currently are in relation to personal allowances and national insurance contributions.

Professor Breedon: Yes, if there was a significant change beyond what we have in the forecast—

John Ireland: —but in a differential way. The personal allowance directly affects the size of the Scottish income tax base, whereas national insurance contributions work in a much more indirect way. They affect the marginal rate in total, but not the size of the Scottish tax base. It is more of a behavioural effect and would probably be more muted.

Neil Bibby (West Scotland) (Lab): The productivity challenge is obviously a long-term one that predates Brexit. Professor Smith said that productivity is not primarily driven by measures in the budget. However, am I correct to think that increasing employment levels and bringing in jobs that will help to drive productivity require fiscal stimulus and investment from Government in the right areas?

Professor Smith: Fiscal stimulus can certainly help, and investment is an important part of that. However, for fiscal stimulus to be successful in generating long-term growth, the economy has to have the capacity to respond.

Neil Bibby: What Scottish Government interventions that will improve productivity have you observed in this budget?

Professor Breedon: I do not think that we have been that precise. Sadly, there is no magic policy—we do not know which policy will improve the productivity story. It is a head-scratching problem for policy makers around the world. I would like to be able to tell you that policy X will solve the problem, but it is unclear which policies matter in dealing with productivity.

Neil Bibby: Do you have an assessment of the Scottish Government's attempts to date to drive productivity forward?

Professor Smith: For the reasons that we have already touched on, the issues that you might want to look at most closely are not within our remit. If you were asking me as an economist—and not as a member of the Scottish Fiscal

Commission—which Scottish policy issues that might affect productivity I would look at, my answer would be Scottish education policy and the new Scottish national investment bank, for example. However, we have no role in evaluating education policy or the likely effects of the Scottish national investment bank. I am not trying to evade the question about productivity, but I do not want to be drawn into a discussion of areas that are not our responsibility. Primarily, those are questions about policy areas other than those that we are responsible for scrutinising.

Neil Bibby: Thank you for your answer.

Angela Constance (Almond Valley) (SNP): Good morning, panel. The foreword to your report refers to the revised protocol between yourselves and the Scottish Government and your keenness to learn about

"what works well and what could be improved"

in your overall approach to forecasting. I am interested to know what is new in the relationship, and what you have learned.

Dame Susan Rice: I will kick off, and then John Ireland will give more detail. We have a written and published protocol on how we work with the Scottish Government. We review that at least once a year—we look back at how things worked the last time around in relation to the timings, the handovers and who speaks to whom and when, for example, and find ways to improve them. It is an on-going process of simply improving the way that we approach that relationship. We think that it has become smoother and that all parties know and understand what they need to do at various points.

10:30

John Ireland: The protocol is really about the day-to-day engagement with the Government. It covers things such as when it will give us a certain piece of information, when we will give it our preview of the forecast and when we will hold meetings. It also pins down the interchange with ministers. It is much more about how we do a forecast in the sense of the relationships than it is about actually doing the forecast. As Susan Rice said, we look at the process each year and if a piece of communication has not worked well, we tweak it. A lot of the time, the revisions are about timetables and making sure that the Government has had enough time to think through our forecasts in formulating policy. It is also about ensuring that we, too, have had enough time to think about how we made our forecasts and how we responded to the Government's policy thinking.

The other part of what we do is the forecast evaluations. The Scottish Fiscal Commission Act 2016 requires that we evaluate our forecasts every year, which we do in September. That exercise is much more important to the quality of our forecasts than the protocol is.

The committee will also be aware that, last year, the Organisation for Economic Co-operation and Development did a big external review of the SFC. The review took a very close look at all our models and how we put our forecasts together and had some lessons for us on how we go about our business.

Angela Constance: How well plugged into the development of social security policy do you feel? I am not asking you to comment on social security policy, but I assume that understanding how policy is developing has a bearing on your forecasts. How well are you knitted into that process? It is not just the approach to social security that is likely to continue to be different in Scotland; the processes around developing social security policy are different, too, with user panels, scrutiny panels, stakeholders and so on.

Dame Susan Rice: We are increasingly more effectively joined together. A few months back, we spoke at a seminar that was all about the delivery of social security. We have a lot of connections, and we have a lot of meetings and exchanges so that we understand what is happening.

Professor Ulph: In the various rounds, when we are developing our forecasts, we have meetings with people in the Scottish Government who are responsible for social security policy and with people from Social Security Scotland. In that way, we understand some of the mechanisms by which those policies will be delivered. Those are really quite important elements in our forecasts for, say, the uptake of certain benefits. We modify our assumptions on the basis of what we hear at those meetings, which have been extremely constructive.

Angela Constance: In your report, you highlight that social security spend will account for 10 per cent of the revenue budget—it comes in at just under £4 billion—and that it is a demand-led area. At the end of the day, the Government must always meet its commitments, yet the committee was briefed last week that the average forecast error in relation to devolved benefits was around 3.5 per cent. Will you comment on that, given that you concede in your report that forecast errors are likely?

Dame Susan Rice: Errors are likely in all forecasts, and 3.5 per cent is not a dreadful number.

You should also keep it in mind that, in cases where social security benefits have already been devolved and there are new elements that have not been delivered through the previous United

Kingdom route, there is no history on which to base our forecasts. We do the best that we can with whatever information we have, but forecasts improve when there is a background or a history. For example, the new Scottish child payment has never been done before, so forecasting that is a challenge. We figure out what elements might lead to changes in take up and we figure out the cost—we do our best to factor that in. However, there are bound to be errors in such cases.

Angela Constance: I appreciate that much of this is a new journey. You said that 3.5 per cent is not a horrendous figure, but it is an average, so it could be less or it could be much more.

You have acknowledged that the volatility in the budget has increased as a result of the social security powers. However, the powers to manage that volatility have remained the same. Do you have a view on that? Given that, in due course, the fiscal framework will be reviewed, what could help the Scottish Government, at a practical level, to manage that volatility better?

Professor Smith: One element of the forecast errors in social security is that this is a learning process for us. I think that we have previously discussed the experience of forecasting the first new benefit—the best start grant. It is a crucial challenge for us. David Ulph referred to what are often quite detailed discussions with the social security people about their expectations of take-up rates, and with Government policy people about their objectives for take-up rates. It is still a highly judgmental area, but we are learning from it.

The experience of forecasting the take-up rate for the best start grant and our understanding of the challenges around that have informed our subsequent forecasts, particularly for the Scottish child payment. We are certainly optimistic that, as we gain experience of forecasting a succession of new developments, and as the new developments become familiar, we will get much better at the crucial issue of forecasting take-up rates.

Angela Constance: You have, in effect, summed up what your colleagues said. My specific point was that although the volatility in the Scottish budget has increased, the powers to manage that volatility have not. The fiscal framework will be reviewed in due course. Are there more tools that—in theory, anyway—would be useful for the Scottish Government to acquire, whether around borrowing or some other aspect?

Professor Smith: There is volatility in the budget, and there is an interesting question around whether the £3 billion or so of social security expenditure increases the general level of volatility. The volatility that arises from the income tax forecasts is already very substantial. Social security, by adding another volatile element to the budget, is something that needs to be thought about.

However, the general issue of what should be done about the Scottish borrowing powers and whether the fiscal framework should be adjusted is really a matter for the Government and the Parliament to consider. Our job is to draw attention to the volatility that exists, which we aim to do in our forecasts—we discuss the income tax reconciliations and the implications for future Government budgets.

Professor Breedon: As we have said, there are more moving parts in the whole budget process than there have been historically, and it is important to try to monitor those moving parts and keep track of them. Within the current framework, there is more that can be done to ensure that all elements are kept track of, so that we know where the overall position is moving. This is not a direct answer to your question, but I am saying that, within the current framework, there is capacity to try to manage volatility by monitoring all the different moving parts carefully over time.

Dame Susan Rice: Even more specifically, looking across the whole Scottish budget, you can see that if more has to be spent on social security expenditure, less will have to be spent somewhere else. There is a sort of check and balance—it is not that social security sits entirely on its own.

Angela Constance: Sure.

Dame Susan Rice: It is right that the discussions on the fiscal framework are for the two Governments, and they could well consider other aspects.

Angela Constance: I understand that it is perhaps your job to highlight the problems, and that finding solutions is for the rest of us. What tools does the UK Government have at its disposal to manage the risks in demand-led social security across the UK?

Professor Smith: The UK Government has much greater borrowing powers. In managing a social security budget that is much bigger than the Scottish Government's budget, because it includes the full range of UK benefits, the UK Government does not have to worry about end-year reconciliations, because it has borrowing powers to deal with that on a scale that the Scottish Government does not have.

The Deputy Convener: Although 3.5 per cent may not be "dreadful"—to use the word that Dame Susan Rice used—3.5 per cent of £3.2 billion is a very big sum, and I do not think that anyone should underestimate the concern that the committee has about the ability of the Scottish Parliament to manage the risks that come with that. I was very struck by what Professor Breedon said. The review of the fiscal framework is one thing, but what adjustments can we make in the budget process now? Professor Breedon said that there is more that we can do and I would like to draw him out on that. What more can we do within the existing framework and budget processes to manage those risks appropriately?

Professor Breedon: The clarity that we have about the budget process is increasing steadily, but because there are more moving parts, there is room for even more progress on that score. We understand how the budget is progressing through the year. Obviously, there are some unique circumstances that mean that this forecast has been a little bit more uncertain than usual, and we hope that, by the time we come to our next forecast, we will have more clarity about the overall budget position. That will mean that we will have more information about how end-year reconciliations are progressing and what leeway there is in the system. I do not know whether you want me to be more specific than that, but that is the general picture.

The Deputy Convener: People have talked about borrowing, but no one is talking about using the Scotland reserve—why is that?

Professor Breedon: Clearly, that is an issue that we would highlight. The reserve is important, as it is one of the relatively limited number of buffers that are available in the system. It will be an important thing to keep track of throughout the year, because it is one of the buffers that will manage the volatility that is coming about.

The Deputy Convener: I suspect that that is an issue that the committee will want to come back to.

Sarah Boyack (Lothian) (Lab): I will move on to the volatility that is caused by the timing of this year's budget. In the introduction to your report, you say:

> "Monitoring and management of the Budget through the course of the year will be increasingly important ... with more parts of the Budget being variable and harder to predict."

Of course, this year we have the unusual circumstance of having the Scottish budget before we know what the UK budget is. You make the comment that

> "it is reasonable to expect there will be increases in UK Government spending announced in the March UK Budget, and for the Scottish Government to include some provision in estimating the total size of their Budget",

because it will know the size of the consequentials only after the UK budget. How do you think that that has worked this year and what are the implications? We have been talking about tax intake, productivity and the impact and effectiveness of expenditure. If the budget is decided only later in the year, what is the impact of that and how do you monitor the effectiveness of spending?

Professor Ulph: The timing of the UK budget has had a number of impacts. One has been on the Barnett consequentials. The Scottish Government has made some assumptions about Barnett consequentials based on the Conservative Government's spending review in September 2019. It has also factored in some allowance for what was in the Conservative manifesto, which on the whole was quite a modest manifesto, and it has made some other adjustments to the Barnett consequentials. We recognise that the UK Government could announce quite significant spending increases in the budget on 11 March, which will then flow through to the Barnett consequentials. That is one of the levers that might be available to help the Scottish Government to manage the impact on social security. If the Barnett consequentials were higher, they could be used to help manage the social security impacts.

10:45

All the block grant adjustments have also been affected by the timing of the budget. They were based on the OBR forecasts from last year and went back to March for social security and December for income, when the OBR was forecasting for the Welsh budget.

There will be updated block grant adjustments and updated OBR forecasts in the budget. At the moment, it is very hard to say in what direction those will go. In relation to those elements, the Government will have a choice as to whether to take the provisional block grant adjustments that are in the budget at the moment, or to accept the block grant adjustment that comes out following the updated OBR calculations on income tax. That will be a decision for the Scottish Government to make.

Our strong advice would be not to update the income tax block grant adjustment without knowing the updated income tax forecast, which you will get from us in May. Our advice would be to wait until May, when you will have learned what has happened in the UK budget and what our updated forecasts are. At that point, you will have all the information that you need to make the right decisions about how to manage the budget.

Sarah Boyack: That sounds very sensible, but it takes us to a point where we do not know what our potential new expenditure options will be until quite far into the year. There is the issue of the Scottish Government setting its budget and allocations, but I am also thinking of the impact down the line on organisations that might be given those budget allocations, and how well they might be able to anticipate or spend their budget for a relatively short period in the year.

Professor Ulph: Again, it is only two months into the year, so they may have enough reserves to monitor their spending knowing that changes could be coming down the line.

Sarah Boyack: However, it means that everybody is moving slightly down the track, does it not?

Professor Ulph: Yes, it does.

Sarah Boyack: Volatility has been mentioned by several people already. You talked earlier about investment in infrastructure, productivity and the creation of high-quality jobs, all of which must become harder the later in the year certainty about funding is given to organisations or budget lines. When there is already a nervousness about having annual budgets, making sensible expenditure becomes very difficult. Will you comment on that?

Professor Ulph: The infrastructure investment will be affected more by the capital funding powers that the Government has than the resource element of the budget, which is what I was talking about.

Sarah Boyack: I am thinking about the planning for that infrastructure, which does not happen from nowhere—you have to have the staff and do the strategic planning. An issue that has come across strongly is that there has been a lack of certainty, with this year being particularly challenging. What lessons would you factor into future advice to the Government?

Professor Smith: It is important to add that, if the Barnett consequentials or revised tax, BGA and revenue forecasts that David Ulph talked about led the Government to have more money available to put in the budget, desperately trying to spend it in the current year would not necessarily be the right thing to do. For reasons that we outlined in our report, we know that substantial budget challenges are likely to be faced in future years. If there is a bit more leeway, one of the options that the Government will need to look at is whether to book that for next year instead of trying to spend it this year.

Sarah Boyack: So, potentially, borrowing less and making that the balance.

Professor Breedon: Yes. As I have said, one solution to your problem is more careful use of the budget buffers that are already in the system. That is a decision for the Government, but one solution that you do not pass on the volatility to the departments if you carefully manage the budget buffers, which include borrowing and the reserve.

The Deputy Convener: I find this all a bit depressing. At the beginning of this session of Parliament, there was optimism that we could move to multiyear budgeting. We now have a medium-term financial strategy, although there is a question mark over how much strategy is in the document and how medium term it really is, at least we have a document called that. However, you are now telling us that we cannot even look beyond May coherently, and it is already February. Can you cheer me up?

Professor Breedon: The issues that we are talking about seem very big to us now, but they are really between-year transfers—they are more cash management issues than long-term issues. It is entirely possible to have a long-term view about the budget process while still having the headache of how to manage the money that is needed this year compared with next year. It is useful to think of cash management and long-term budgeting as compartments and try to keep those separate. It is possible to do long-term budgeting and cash management.

Dame Susan Rice: In the past few years, the MTFS has been published in May. This year, we do not yet know what the timing will be, so we have said that it will be May on that basis. It is two months after the start of the year. May is not the outer limits at which one could look, but at that point we will have up-to-date information and data and up-to-date Office for Budgetary Responsibility forecasts and we will do another overall forecast, which will look at very good information. I agree with you that the situation is not ideal, but that will equip you to look beyond May.

The Deputy Convener: I am not that much more cheered up. Maybe Murdo Fraser can help me.

Patrick Harvie (Glasgow) (Green): That does not cheer anyone up. [*Laughter*.]

Murdo Fraser: I think that you are living in hope, convener.

The Deputy Convener: Absolutely—I am always an optimist.

Murdo Fraser: Indeed.

I want to ask about the issue of tax reconciliations, which you cover in your forecast. The final reconciliation applied in the current budget is -£207 million. Your updated forecast for the reconciliation is -£555 million for next year's budget and -£211 million for 2022-23. We understand that the -£207 million reconciliation will not be paid out of the current budget but will be borrowed, so it will be repaid over the coming five years.

Our budget adviser told us that resource spending in this budget is up almost 5 per cent in real terms compared with the previous year, so there is more money in the budget. How prudent is it for the Scottish Government, instead of using the resources that it has now to repay the money, to borrow the money, given what is coming down the track next year, when the sum involved is much larger, and the year after?

Professor Smith: You are correct. As we have described in our report, this year's reconciliation—£204 million for income tax and £207 million overall—is being met by borrowing. Our judgment is that that is a reasonable use of the Government's borrowing powers.

However, I also agree with you. The current indications of next year's reconciliation is much bigger at £555 million. The question whether the Government is making adequate provision for that reconciliation, given the limitations on its borrowing powers, is one for the Government and not for us. We are commenting on what the Government is doing this year, and what it is doing is a reasonable use of its powers.

The Deputy Convener: Why is it a reasonable use of its powers?

Professor Smith: One of the things that the Government has borrowing powers for is to deal with forecast errors. Therefore, using its borrowing powers to deal with the reconciliation of £207 million is reasonable. However, the question whether it is thinking far enough ahead about the £555 million next year is one for the Government and not for us.

Murdo Fraser: The money that the Government is borrowing has to be paid back over, I think, five years, so the problem is being postponed for a future budget. Next year, there is the Scottish Parliament election. Is it unduly cynical to suggest that the Government is seeking to postpone the pain until after the election, so that the coffers are as full as possible for spending before the election?

Professor Smith: If I may say so, members are being very challenging: the deputy convener wants to be cheered up and you want us to make judgments about cynicism. You are both stretching the limits of the Fiscal Commission's remit. [*Laughter*.]

Murdo Fraser: I thought that I would give it a try.

The Deputy Convener: Irrespective of optimism, pessimism, cynicism or anything else, I have a couple of what I hope are factual or analytical questions about reconciliation. The Fiscal Commission's May forecasts raised the possibility of negative income tax reconciliations of about £1 billion, which will need to be dealt with over the next three budgets, as Murdo Fraser said. We now have audited outturn data for 2017-18 and substantial published outturn data for 2018-19, and the figure is still about £1 billion. First, is that figure likely to change much when the fully audited figures for 2018-19 are published in July?

Secondly, and relatedly, the Fiscal Commission's report suggests that the Scottish Government's response to the 2017-18 reconciliation

"should be considered alongside possible future reconciliations."

Can you explain what you mean by that?

Professor Smith: I will take the second question first. That is another version of what I just said in response to Mr Fraser's question. Ideally, this year's £204 million reconciliation should not be thought of in isolation from the further reconciliations that are coming down the line, because we need to look at the full scale of the issue.

On your first question, the £555 million figure is an indication or estimate; it is not the final figure. However, we are now close enough to having the final figure to say that we would be surprised if it was very different. Professionally, we are always cautious about injecting overconfidence into figures. Our experience so far with reconciliation figures is that they bump around quite a bit, but this year's £204 million figure settled down into that area some time before we had the final outturn figures. It would certainly be wise for the Scottish Government to assume that next year's reconciliation figure will be in the area of £550 million rather than to hope that it will turn out to be very different, which is unlikely.

The Deputy Convener: That is helpful.

I want to go back to the question of reasonableness and how you assess that. As I understand it, the SFC has a statutory responsibility to assess the reasonableness of the Scottish ministers' borrowing. How have you fulfilled that reasonableness assessment with regard to the Scottish ministers' use of their borrowing powers this year?

John Ireland: There are two elements. The first element is whether the borrowing is mechanically within the terms of the fiscal framework. In relation to the reconciliation, the answer is that it is; it is beneath the borrowing cap.

The Deputy Convener: That shows that it is lawful; it does not necessarily show that it is reasonable.

John Ireland: It does not relate to the law, because the fiscal framework is not law, but the borrowing is certainly within the terms of the fiscal framework.

Assessing reasonableness is where it becomes more difficult, because this is all about shades of grey. We have tried to get a sense of what is coming up in the future and whether the Government's actions make sense, based on what it knows now. One of our clear messages is that the Government does not quite have a full picture yet; it will need to wait until May until it has the full picture. At that point, it will know a lot more about the size of the Barnett consequentials relative to its spending, and it will know more about its underspend for this financial year and how that has affected its reserves. The Government needs to wait until May before it gets clarity on the reserves, on the Barnett consequentials and on UK income tax policy. It will have our next set of forecasts in May, too.

11:00

Then there are all the issues that Francis Breedon and Alasdair Smith have talked about, on looking forward and knowing what reconciliations might come down the line in future. We need to ask where our reserves need to be in order to cope with those. Therefore there are a number of parts to the process of thinking about the reasonableness of the borrowing.

Professor Smith: In the ways that I have just outlined, we have tried to draw the committee's and the Government's attention to the issues that need to be thought about.

If I might add to what John Ireland has said, I go back to my response to Ms Boyack's question. If the Barnett consequentials and other factors that come along with the UK Government's involvement give the Scottish Government more leeway, it might be right to use that leeway to increase current spending. However, the Scottish Government would need to look very hard at whether that would be right, given the challenges that there will be further down the line. In our report we have set out what those challenges might be and have indicated that if additional leeway should come along in March or May, the Scottish Government will need to think quite hard about how to use it.

There is another aspect that needs to be thought about, which is also mentioned in our report. When we think about negative consequentials and the need to borrow for them, it is also worth considering that such a consequential is already a borrowing. As we have said, it is like an interest-free loan.

Professor Breedon: I think that you mean a reconciliation.

Professor Smith: Thank you very much, Francis. I am sorry—I meant to say that a negative reconciliation is already a kind of borrowing. This year, the figure is £204 million. Two or three years ago, the Government thought that it was going to have £200 million more of income tax revenue to spend than it turned out to have. That money went into its budget in 2017-18, where it was spent. In such a situation, when the reconciliation comes along in the next fiscal year it has in effect been an interest-free loan.

If I might put back to you the question that you put to me—not for you to answer, but as one for the Government to think about—is the right response to a £204 million interest-free loan having come to an end to roll it into further borrowing? There are different ways of answering that question, but that is one way to think about it.

The Deputy Convener: Indeed but, speaking as a lawyer rather than an economist, for me the critical question is whether you understand that your analysis of the use of such powers should be a two-step process. You must first ask whether an action is within the scope of the powers, but that should not exhaust your inquiry on reasonableness. Whether the exercise of a power is within scope—of either the legislation or the fiscal framework, which is not legislation—is a narrower question than the one that flows from your statutory responsibility to ensure that the use of such powers is not merely lawful or proper but reasonable.

Do you understand that that is a two-step process? Do you have a methodology for looking at the reasonableness, as well as the propriety, of the use of such powers? I think that that is what Mr Ireland confirmed in his answer. Is my understanding correct?

John Ireland: I will say yes, rather than just nod my head.

Dame Susan Rice: Yes.

The Deputy Convener: That is helpful. Thank you very much.

Tom Arthur: I have a brief point for clarification, following Murdo Fraser's question in which he referred to a 5 per cent uplift in the resource budget. Can you confirm that, if social security and farm payments were excluded, there would be a cash uplift but the real uplift in the resource budget would be about 3.7 per cent? I am going on the Scottish Parliament information centre's figures.

John Ireland: We do not produce that type of analysis at the moment. Those are its figures.

Tom Arthur: That is fine, but does what you are including in the available overall resource budget not also include the money that is being borrowed?

John Ireland: Table 1 in the summary includes that—yes.

Tom Arthur: So some of that resource money is being borrowed and it is counting towards that cash uplift.

John Ireland: It is counting towards the resource total.

Tom Arthur: I beg your pardon—I meant to say the resource uplift.

John Ireland: Yes.

Tom Arthur: So part of the money that is being borrowed is counting towards the uplift that Mr Fraser referenced and, obviously, that money cannot be spent twice. Thank you—I just wanted to clarify that point.

The Deputy Convener: I thank all our witnesses for taking part in our first session. I suspend the meeting for five minutes to allow for a changeover of witnesses.

11:04

Meeting suspended.

11:10

On resuming—

The Deputy Convener: For the second part of the meeting we are joined by Kate Forbes, who is the Minister for Public Finance and Digital Economy. She is accompanied from the Scottish Government by Lucy O'Carroll, who is director of tax, and Andrew Watson, who is the head of the directorate for budget and public spending. I welcome the minister and her officials, and invite the minister to make an opening statement.

Kate Forbes (Minister for Public Finance and Digital Economy): I will be very brief, because I know that Dame Susan Rice managed to make an opening statement that was less than two minutes long.

I am very happy to be here. I give a word of thanks to the committee for the helpful role that it has played in this year's challenging budget process. The same goes for the Scottish Fiscal Commission.

There are four strategic aims in this year's budget. They are wellbeing, the climate emergency, inclusive economic growth and tackling poverty—in particular, child poverty.

We are trying to provide taxpayers with as much certainty as possible, despite some of the uncertainties on what the UK Government might do to tax on 11 March. The income tax structure that was introduced in 2017 remains in place.

There are, obviously, several fiscal uncertainties that face this year's budget. We have tried to make assumptions—which I can go into during the question session—about the Barnett consequentials that will flow from the UK budget. Those are almost entirely based on the Conservative Party manifesto. However, there will be implications from the block grant adjustment.

It is a tight process, with stage 3 proceedings happening on 5 March. As I emphasised last Thursday, I am very keen to work on a cross-party basis to get the budget through, so that we can provide certainty to local government, the public sector and taxpayers.

The Deputy Convener: Thank you very much. May the trend for brief opening statements survive.

SPICe has said that, due to the Scottish Government's tax policies, Scottish taxpayers will pay £650 million more tax in 2020-21 compared with the rest of the UK. However, the benefit to public finances is forecast to be only £46 million. Why?

Kate Forbes: What matters to the public sector, in particular, is the amount of tax take that is going directly to public services. If we were to follow and entirely replicate the UK Government's approach to tax, £460 million less would go into the public sector than we have been able to provide. Our tax decisions this year—and over the past few years—mitigate some of the impacts of austerity on our budget to ensure that we are investing in the public sector.

The question goes right to the heart of the fiscal framework, which is key in all this. I suggest that the problem under the fiscal framework is not that we are raising less tax but that we are being punished for rising inequality south of the border. I know that the SFC gave evidence on that. It is why we are pushing for an early review of the fiscal framework. Some of the challenges on the fiscal framework that have previously been considered by the committee—the size of the Scottish tax base and how the fiscal framework and forecasts pick up on that—are quite difficult to address, but the data improves every year. However, when the fiscal framework was first signed up to, in good faith, by all the parties, the fact that there was a built-in review suggests that there was, I believe, an understanding that it would have to be improved at some point.

11:15

The Deputy Convener: This is a learning process. The committee is learning—as you know, minister—that every budget is a learning process.

Is the issue at the heart of the fiscal framework or is it at the heart of the need for the Scottish Government to do everything that it can to grow the Scottish economy—specifically, the Scottish income tax base? We heard from the Scottish Fiscal Commission that a number of issues are not, strictly speaking, budget issues but are broader economic and, perhaps, even social policy issues. What specific policies does your Government have to grow the Scottish income tax base?

Kate Forbes: That is a very fair question. As you identified, it is key that we look at the issue in terms of the fiscal framework and of the need to grow the economy. My direct answer to the question is also found in the SFC's document, where it talks about strengthening earnings growth.

We recognise that there are two ways to grow the economy. The first is to boost productivity. On the substance of the budget, our focus is on stimulating the economy and using our enterprise agencies to ensure that we are investing in the economy. This is the second year of the national infrastructure mission, for example, which sees an increase, yet again, in infrastructure spend.

The second way to boost the economy is through earnings; the trajectory that has been identified by the Scottish Fiscal Commission for strengthened earnings potential is to be welcomed. It shows the impact not just of our tax policies but of our public sector pay policy. Together, they are aimed at supporting people who are on lower incomes. The impact of decisions last year is seen in the stronger earnings potential that is coming through in the forecasts.

The Deputy Convener: I would never seek to argue with you that economic growth generally is not important—clearly, economic growth is important—but I want to home in specifically on how we will grow the Scottish income tax base. That was the focus of a number of questions that the SFC felt this morning were inappropriate for it to answer because they did not, strictly speaking, fall within its remit. However, the questions fall within your remit, minister.

What policies is the Scottish Government pursuing to increase the number of income tax payers? What policies is it pursuing to drive people's earnings up? Obviously, the more that people earn, the higher is their contribution in income tax receipts. It seems to me that, if you got those things right, you would begin to close the eyewatering and astonishing gap between the £650 million of additional tax that will be paid and the yield of only £46 million of additional revenues for the Scottish Government.

Kate Forbes: There are two ways to grow the tax base, the first of which is immigration and attracting people to this country. As you know, the Scottish Government is doing an enormous amount to attract people to live, work and invest in Scotland. We recognise that our population needs to increase, and the recent proposition for a Scottish visa was right at the heart of that. The proposition was dismissed within a matter of hours, although it was heavily informed by the business community, which has identified the need for skills.

The second way of growing the tax base is to tackle non-participation, or inactivity, and to try to get more people into work. I can identify a number of measures in our budget this year—building on previous budgets—that are trying to do that. They include fair start Scotland, which is our employment support mechanism. A total of 16,130 people have joined fair start Scotland to get into work. It also includes, in my area, measures around digital, and trying to attract to the tech space people who are currently not in the workforce at all. We need not only to build our population but to support into work people who are not currently in work.

At the end of the day, a strategic aim of the budget is wellbeing. We have consciously made decisions on revenue raising and revenue spend that support people at the lower end of the earnings spectrum to build their earnings potential, and to attract into the workforce people who are not currently in the workforce. In that regard, the impact that our public sector pay policy generally has on earnings is often overlooked.

The Deputy Convener: Members might want to come back on a number of those issues.

One of the most contested areas of the budget—this year, perhaps, and certainly in recent years—has been the local government element. A number of members want to ask you about that, starting with Patrick Harvie.

Patrick Harvie: Good morning. You have argued, as the Scottish Government has over recent years, that additional money going to local government that pays for additional functions of local government should be seen as part of the overall pot.

The response from local government is that that money should not be counted with the core non-ring-fenced allocation. In order for local authorities to continue to provide core services, they need stability at least, but preferably a real-terms increase in the funding that they receive before the additional funds for additional functions are allocated.

The Convention of Scottish Local Authorities is saying that the current budget falls short by £95 million on the revenue side, and by substantially more—£117 million—on the capital side, which would be a 17 per cent cut on the capital side. I am sure that I am not the only person at the table who has had colleagues from local government telling them that the kinds of choices that they and their colleagues will be faced with as they set their budgets in the coming weeks will result in substantial reductions in core services, as well as in teacher numbers, additional support for learning and social care. They have serious concerns that councils will be placed in breach of their legal duties as a result of choices that they will be forced to make. How many of your colleagues have expressed such concerns to you?

Kate Forbes: I speak to my colleagues regularly and I will meet COSLA later today. As I said on Thursday, in the settlement figures for local government there is a cash increase of £494 million and a real-terms increase in the resource budget. As part of that core settlement—of course, there is no baselining from year to year—we are funding our commitments on early learning and childcare with £201 million of revenue and £121 million of capital, and we are funding our commitment on teachers' pay with £156 million. We are also funding pensions. That strikes at the heart of your question on commitments that have been made.

Pensions are at the heart of the difficulties to do with ring fencing because last year, local authorities had complete autonomy over 92 per cent of their budgets. I accept that they are facing challenges. Pensions are a good example, because policy decisions that were taken at UK Government level were not matched by the consequentials that the Scottish Government received. That meant that we increased support in local government funding for what was, essentially, a new commitment that was made neither by local authorities nor by the Scottish Government.

There are also significant increases in the local government settlement for social care. COSLA has raised some points on additional commitments on things including payment of the living wage. I see that as part of local authorities' core remit and core responsibilities: the Scottish Government is providing the funding to meet those responsibilities.

The difference between local authorities and most other Government departments is that the healthcare system, for example, has to deal with pension increases as well, while local government has the option of raising revenue. Local authorities can raise council tax by 3 per cent in real terms, which could add £135 million to their budgets.

I have talked about resource, and I am very happy to go into detail on capital, unless Patrick Harvie has other questions. Overall, it is a fair settlement. Nobody is pretending that the overall budget is an easy process. There are challenges across the board because of our commitment to pass on health consequentials, but I still strongly believe that we have protected local government and supported it to deliver the responsibilities that we deliver in partnership.

Patrick Harvie: I am sure that you did not intend to suggest that local government is a department of the Scottish Government: it is a different tier of government in its own right. It would be equally inappropriate if the UK Government was, for example, to treat the Scottish Government as a department. I am sure that that was not the intention.

On two—possibly three—occasions in the previous answer you used the word, "we" in talking about funding commitments. It is clear to me that the "we" that you were referring to is the Scottish Government. If the Scottish Government funds local government to meet Scottish Government policy commitments, that might well be a good thing—it might pay for work that we would all like to happen and that all political parties would support—but it would not change the underlying pressures on local government to do the work that is already theirs to do.

I ask again: have you had representations from your colleagues in local government about the severe and damaging consequences of the choices that they will be forced to make as they set their budgets this year?

Kate Forbes: I am speaking on behalf of the Scottish Government, so when I refer to "we", I am referring to the Scottish Government.

On core responsibilities, I think that you would be hard pressed to find local authorities that would say that providing education and early learning and childcare are not their core responsibilities. My point is that we are supporting local authorities to deliver their responsibilities. When there is something that we want to deliver in partnership with them, we recognise it. Early learning and childcare is a great example of a policy that was developed in close partnership with local authorities. They identified their revenue needs, and we have funded those needs.

I hear representations from everybody—suddenly, my inbox is a lot busier than it was before last Thursday.

Patrick Harvie: I imagine that the representations are angrier, too.

Kate Forbes: That is debatable.

I will meet COSLA later today. Local government is not a Government department. I was making the point that, when it comes to commitments such as pension costs, which are a direct result of a policy change at UK Government level, local government can—unlike other parts of the wider public sector—raise revenue to mitigate those costs.

Patrick Harvie: I know that other members want to come in. Perhaps I could come back later on my other issues, deputy convener.

The Deputy Convener: Absolutely. Thank you very much.

Sarah Boyack: I will follow up Patrick Harvie's questions about local government with questions about revenue expenditure and capital expenditure.

In your introduction, you mentioned the Scottish Government's core objectives of wellbeing and inclusive economic growth. Revenue expenditure is being reduced. Will you run through the impact of that? You said that care would be fully funded, but our local authority colleagues are concerned about the £95 million cut to core budgets. They worry about providing that care, given the changing demographics, and about the impact of funding cuts to integration joint boards. Many of us have had reports from our local government colleagues about such cuts.

We have rightly focused on core funding, because education and care are critical, but there is a raft of other funding challenges. There will be cuts across the country to roads maintenance, sports, libraries and economic development. What is your comment on that?

Local government views the £170 million infrastructure cut as critical. That cut sits alongside a cut in this year's budget to the town centre fund. Do not those combined cuts, and the budget for local government more generally this year, make it harder for them to make an impact? Those funds are key economic drivers in communities.

Kate Forbes: I think that there were three questions there. On the first question, I—once again—emphasise how local authorities are funded. They have autonomy. Last year, the authorities had autonomy in spending of 92 per cent of the funding.

11:30

You are right that demand for and pressure on local authorities in social care is increasing. This year, a total of £811 million will be transferred from the health portfolio to support health and social care integration. That includes the on-going additional £350 million that is transferred from the national health service to integration authorities to ensure improved outcomes in social care. In addition to the £160 million that was available last year, a further £100 million will be transferred in-year from health to local government to support health and social care services and mental health services that are delegated to integration authorities. We recognise that social care is an area of pressure for local authorities. They have identified that, and we are therefore providing funding in that area as part of this year's budget settlement.

In relation to capital, I think that you mentioned that one of our aims relates to climate change. In the light of our commitment that every line of the budget should respond to the climate change emergency, it stands to reason that we have taken that into account when it comes to local government, too.

There are three things to identify in relation to local government capital spending. First, last year there were a number of one-offs, including the reprofiling of £150 million in capital and, as has been mentioned, the town centre fund. For context, that must be taken into account.

The second point relates to the new areas of local authorities' spend specifically on climate change mitigation. The most obvious example is the new £50 million heat networks early adopter challenge fund, which will support local authorities that are ready to introduce investment-ready heat networks. In the local authority settlement, we have consciously chosen to support capital spend that reflects our climate change commitments, which is the right decision.

The third point relates to the amount of capital that local authorities receive over and above what is set out in the local authority settlement. One of the big areas of spend this year—as it was last year—is affordable housing. This year, we are providing £835 million, which will meet local authorities' responsibility to provide affordable housing.

There is also the £1 billion building schools for the future programme, which will support investment in the school estate. In addition, the funding for city deals is going directly to local authorities for them to spend on their local economies and on areas that are of concern to them. Again, that is over and above what is set out in the local authority capital settlement for this year.

Sarah Boyack: Thank you very much for that answer. Can I take it from your answer that you think that you have ticked the box for town centres and that you have sorted that issue? I mentioned town centres in relation to economic investment in local communities, which is a key issue. I did not mention climate change, but I might come on to that.

You said that the town centre fund was a one-off expenditure last year, so it is gone. Local authorities now have to look at that major issue but with a declining capital expenditure budget.

Kate Forbes: I do not think that anybody would suggest that investing in our town centres will be done solely through a £50 million pot. As I am frequently reminded by all colleagues, there are a lot of other critically important ways of supporting town centres and supporting the transition to a digital economy, not least non-domestic rates, which probably have a far greater bearing on town centres than a £50 million fund, as welcome as I know that that was last year.

Sarah Boyack: That is my point: it cannot just be a one-off investment; there has to be an on-going commitment. Remaking our towns is a real issue.

Kate Forbes: In essence, you are asking me to ring fence £50 million for town centres when we are trying to reduce the amount of ring fencing.

Sarah Boyack: No—I am making the opposite point. You have cut the amount of money for capital investment for local authorities. Last year, there was a little bonus, but the fact that the money has gone down will make it doubly hard this year.

I asked about the economic impact in local areas. You did not answer my question about the capacity of local authorities to invest revenue and capital in economic development, given that their budgets are being cut but they have core priorities that they must meet.

Kate Forbes: I disagree that we are reducing their potential to invest in their local economies, given the amount of infrastructure spend, which is often managed by local authorities, that is included in this year's budget. Let us take, for example, our target of delivering 50,000 affordable homes. Although affordable housing is the responsibility of local authorities, it is an area where we recognise that there is extreme pressure, which is why there is £843 million in the budget this year to support affordable homes. In terms of infrastructure spend and construction, that has a huge impact on local economies.

The core capital spend that is part of this year's local government budget means that local authorities have the option of investing in capital over and above the amount that is being provided through city deals, affordable housing, the schools for the future programme and the nursery capital fund.

Murdo Fraser: The Scottish Government's resource budget is going up from this year to the next—SPICe puts the increase at 3.7 per cent in real terms, while our budget adviser says that the figure is 5 per cent. We will let them fight among themselves about who is right. Although the resource budget is going up and is going up quite substantially, according to COSLA, you are delivering a revenue core budget cut to local authorities of £95 million, or 1 per cent in real terms. Why is that fair?

Kate Forbes: I will break down the spend that is associated with the slight increase in the Scottish Government's budget. If you go through the figures on how that is funded, you cannot get away from the fact that there is still a squeeze on most portfolio areas, with the exception of health. For example, we have factored into this year's budget the £1.1 billion that was announced as part of the spending review. We have also assumed that the Conservatives meant what they said at the December election and have factored into our budget anticipated Barnett consequentials of £468 million, of which £142 million is resource and the rest is capital.

We have factored that into our budget; I know that the Conservatives are keen that we pass on health consequentials in full. If we break the figures down, we find that £635 million of the spending round uplift, plus £120 million of the anticipated consequentials, go straight to health. Once we allocate on the basis of passing on the health consequentials, we find that there is a real-terms decrease in all other budget areas. That is what we have to contend with as we go into this year's budget.

Our commitment has always been to protect local authorities as far as we are able to. That is why the point can be made that, while local authorities in England and Wales are, to quote COSLA's finance spokesperson, "collapsing", that is not the case in Scotland.

As I said, I will meet COSLA later today, and we continue to discuss and negotiate with it. The decisions that we have made in this budget endeavour, in the light of the resources that we have available to us, to protect local authorities as far we can.

Murdo Fraser: I will happily debate all the detailed figures on another occasion. I just want to illustrate my point with two local examples. Even with the maximum uplift in council tax, Fife Council—which is in the area that I represent and is a joint Scottish National Party and Labour administration—is looking at £12 million of cuts and a cost of 90 jobs. As a result of what the Government is offering, 90 people would lose their employment.

On Friday, I had a meeting with Perth and Kinross Council, which is a Conservative minority administration. It is looking at making budget savings, and local recycling centres in rural communities are one of the things that it might have to cut. That would mean that the people who live there would have to not recycle or would face a 20 or 30-mile round trip to the nearest urban recycling centre.

You said at the start that part of your budget objective was delivering a budget that would tackle the climate emergency. Do you accept that there would be a real irony if a budget that was meant to tackle the climate emergency passed on to local councils cuts that meant that they were less able to take measures to tackle climate change and which, in fact, made it more difficult for them to do so?

Kate Forbes: I do not think that there is any way that we can get away from the fact that we are still dealing with a decade of austerity. No matter which way we look at it, in each of the past two years, chancellors have announced that that year would be the end of austerity, but that has not been the case.

This year's budget is set in the context of making assumptions about consequentials that might come to us, but which we do not know for a fact will come to us, because all the engagement between officials in the Scottish Government and officials in the UK Treasury has merely resulted in Treasury officials referring us to the Conservative Party manifesto. That is the nature of the assumptions that we have made going into this year's budget. We have tried to take the costings at face value. However, there is no way of escaping the fact that we are doing that after a decade of austerity.

In the light of the challenges around the climate emergency, we have tried to take a different approach when it comes to the capital spend that goes to local authorities, in the same way that we have taken a different approach in every budget line. That includes trying to support local authorities to mitigate climate change—the heat networks challenge, for example, is a new fund to support them to do that.

The budgets of Fife Council and Perth and Kinross Council are going up in real terms. We can debate whether that is core or additional, but ultimately that funding is going towards the public services that people expect to see. Local authorities have full—well, relatively full—control over how their budget is spent, and it is spent on local services.

It remains the case—I make this point to every party and to everybody around the committee table—that I have confirmed that every penny that we can deploy is there in the budget, despite the sharp time constraints and the fact that we do not have many guarantees over consequentials. Members are perfectly within their rights to make the argument that more money should be spent on local authorities, but that would have to be removed from somewhere else. My point is that they need to tell me where to take it from.

The Deputy Convener: We will have one more question on local government before moving on to other areas.

Neil Bibby: Given that the Scottish Government's capital budget has increased by 13.2 per cent in real terms, the cuts to council capital budgets are particularly obscene.

Councils are getting less in their capital budgets than was expected, and now they will have to re-evaluate what projects they can deliver. Do you accept that there are projects that councils want to take forward that they will no longer be able to take forward as a result of the budget? If they want to make up for the shortfall, they will have to borrow, and that will have implications for their revenue budgets.

Kate Forbes: Local authorities have the freedom to make decisions about what they invest in. I have already made the point that this year's budget provides an increase in capital, and that is matched by our significant increase in low-carbon infrastructure spend. The new funds that are available to local authorities for capital reflect the changed commitment to mitigating climate change.

We have provided £763.1 million, plus more than £380 million that is outwith the local government settlement, to local authorities. That includes the city deal money and £100 million more, in total, than last year. As a package, that reflects an overall increase in the funding that local authorities will have available for capital.

Neil Bibby: I hear what you are saying, minister, but councils are saying that this is another round of cuts to local councils.

On resource, education was declared as the defining priority for the First Minister, but analysis from the Improvement Service's local government benchmarking framework showed that £288 less was spent per Scottish primary school child in 2018-19 than in 2010-11, while secondary school pupils had £129 less spent on their education. Those figures include sums for the pupil equity fund.

Based on what COSLA is saying, it is quite clear that the local government settlement does not include enough for education. Why will the Scottish Government not give councils enough money to properly fund education and stop cuts to our schools?

11:45

Kate Forbes: That suggests that you are asking me to ring fence for education money that goes to local authorities. In fact, we agree an overall settlement and allow local authorities the freedom to determine what that is spent on.

As I have said, the funding of resource includes our commitments on the teachers' pay increase and on pensions, to ensure that that money is not taken away from the core money that is spent on our classrooms. It also includes £88 million to support local authorities to retain the teacher pupil ratio.

Education should be the core objective of not just the Government but everybody, including local authorities, and we have ensured that the local authority funding settlement reflects that. I am not saying that we have increasingly ring fenced for education funding that goes through the local authority settlement; rather, we have ensured that such costs are included and have given local authorities the freedom to determine how that funding is spent.

Angela Constance: Good morning, minister. I will ask about poverty and social security, but I turn first to the subject of affordable housing. You have spoken about the £843 million that will be invested to deliver the Scottish Government's commitment to provide 50,000 affordable homes. We already know that investment in housing contributes to improving people's wellbeing and to tackling climate change, and it is also a large plank in our efforts to tackle poverty. Further, it can help to improve the income tax take—I know that the Scottish Government has carried out modelling on that.

If I am correct, I think that we are moving into the final year of the resource planning assumptions that are used in funding local government housing provision. Those have been important in giving local government longer-term certainty, particularly given that the lead-in times for investing in and building houses are not inconsiderable. If this is indeed the final year in which those assumptions will be used, and we are now looking to the future, what is next? Given its fundamental importance in tackling poverty, and fuel poverty in particular, we cannot have investment in housing falling off a cliff edge.

Kate Forbes: You are right to say that, this year, £843 million will be provided, as part of a £3 billion package over five years to deliver 50,000 affordable homes. That funding will stimulate local economic development and inclusive growth.

However, Homes for Scotland and others have been very clear that, in order to manage planning and give the construction industry security and certainty beyond 2021, they need commitments for the subsequent years. We have therefore committed £300 million in 2021-22 to give the industry certainty so that it will continue to start new projects. That is also designed to ensure that the pipeline of housing does not dry up. Homes for Scotland, which represents a huge swathe of the construction industry, expressed concern that we might have problems in delivering this year's effort for the 50,000 homes commitment if such certainty were not provided for future years. That is why that figure is included in this year's budget.

Angela Constance: I am also very interested in the relationship between our choices in investments that actively lift people out of poverty and our other choices that prevent them from becoming poorer.

In the forthcoming year, we have on the one hand an investment of £21 million in the new Scottish child payment, which is very welcome, and, on the other hand, a raft of investments in so-called mitigation measures. For example, in the budget, £60 million—three times the figure for investment in the Scottish child payment—is being provided to mitigate the effects of the bedroom tax. There is also £42 million for the Scottish welfare fund, which is an increase on last year's figure. When that fund was introduced a number of years ago, I think that the figure stood at £9 million.

Overall, how will the budget help us meet our statutory obligations—for example, to end child poverty—but also move forward, by lifting people out of poverty as well as preventing them from falling back into it because of actions that have been taken elsewhere?

Kate Forbes: Child poverty, or poverty more generally, is one of the four main themes, so there is quite a significant emphasis throughout the budget on steps both to mitigate poverty and to prevent it in the first place. It is worth saying that we do not look at revenue raising in isolation from how the money is spent. We want both the way that we raise tax revenue and the way that we spend it to reflect that commitment to reduce poverty in Scotland.

That is why we focus in particular on low-income families. Last year, we spent in total about £1.4 billion on support that was targeted specifically at low-income families, which included more than £100 million that was targeted at reducing the impact of the UK Government's welfare reforms. We have built on that in this year's budget by committing to rolling out the first child payments by the end of the year. There is £21 million for that in the budget.

There are other mitigation measures. As well as the Scottish child payment, we are continuing to invest money from the £50 million tackling child poverty fund, and we have increased the Scottish welfare fund by more than 7 per cent. The purpose of the fund is specifically to mitigate the UK Government's welfare cuts; the fund acts as a safety net so that people on low incomes can access a crisis grant in an emergency or a disaster, or a community care grant. I could also talk about measures around food security, such as the fair food fund. We are also taking measures on fuel poverty and energy efficiency, which will help to tackle climate change challenges as well as support low-income families.

Angela Constance: We are moving into a big year for social security, with expenditure of well in excess of £3 billion, which is about 10 per cent of the resource budget. You will be familiar with issues around demand-led budgets, and we have heard evidence on forecasts that have been undertaken by the Scottish Fiscal Commission and how no one expects those forecasts to be correct.

Although the volatility associated with the Scottish budget has increased substantially for the coming financial year, the powers to manage that volatility under the fiscal framework are, of course, the same as they have been this year and in previous years. I would be interested to know your view of that. What would help you in your job to manage that volatility? Has the Scottish Government taken up that issue with the UK Government?

Kate Forbes: It is an area of on-going consideration—let me put it like that. We recognise that the devolution of social security gives us the opportunity to do things differently. However, managing more than £3 billion of social security expenditure will increase the volatility that the Scottish budget is subject to—I assume that the Scottish Fiscal Commission will have talked about that this morning. The SFC noted in its publication that that expenditure is demand led and, ultimately, will be determined by the number of eligible people. It is a volatility that we have to manage in-year. We will have to meet that spending demand as it arises, even if it differs from what has been forecast.

Even before we consider the devolution of social security powers, we can see that the levers that we have at our disposal, which are borrowing and the reserve, are clearly inadequate to meet the potential level of budget volatility in the current system. In September, the previous cabinet secretary wrote to the Chief Secretary to the Treasury, identifying that issue and requesting an increase in the borrowing and reserve powers in advance of the review of the fiscal framework. I go back to the point that the very fact that a review was built into the fiscal framework means that the likelihood of changes or surprises emerging and necessitating such a review was recognised. However, I have yet to receive any indication that the UK Government will reconsider the borrowing or reserve powers to allow us to deal with that volatility.

When there are changes at the UK Government level in terms of outturn versus forecast for tax or for social security spend, the UK Government has borrowing powers to smooth that over, whereas the Scottish Government is severely restricted in the borrowing powers that it has—for example, our borrowing powers do not even take into account inflation. If we decide not to use the borrowing powers because the amount that we can borrow is capped or because the circumstances in which we can use them are severely restricted, the alternative is to use the reserve, but if we do that, that money will not be available to invest in all the various areas in which we would like it to be invested.

We have raised that issue with the Chief Secretary to the Treasury. I understand that the Treasury basically said, "When it becomes a problem, come and talk to us." That does not provide us with much of a guarantee when it comes to managing that level of volatility.

While we press for change, ultimately we will have to deal with variance between actual and forecast expenditure in a fiscally responsible way and in line with the principles that were set out in the medium-term financial strategy.

The Deputy Convener: I would like to follow up on Angela Constance's first few questions.

Minister, in your opening remarks, you identified that, as well as tackling poverty, promoting wellbeing was at the core of this year's budget. The word "wellbeing" is certainly used many times in the budget documentation. Can you give me specific examples of how the new wellbeing approach, which has not been used in previous budgets that your Government has introduced, has resulted in shifts in policy direction or expenditure? What is not being done now because of the wellbeing approach that was done previously?

Kate Forbes: The answer to that is twofold. First, everything starts with the national performance framework, which provides the outcomes against which our performance needs to be measured. Indicators are built into the NPF, and the investment and tax decisions that are taken in the budget must reflect the NPF.

That is important to how we look across portfolio areas. In the committee's scrutiny and in our setting of the budget, too often we fixate on specific lines. Let us take active travel, for example. Active travel is seen as a transport line, but it is also a health line and a justice line. It affects—

The Deputy Convener: It is a local government line, too.

Kate Forbes: Yes, it is.

What is and has always been difficult for Governments around the world—many countries are now looking at this, not least New Zealand, Iceland and, most recently, Canada—is how they capture the impact across portfolio lines on an outcome such as happier people with healthier lives.

In answering your question, the starting point is that we apply the national performance framework to the decisions that we take on the budget so that we can capture where there is an impact on more than just one line.

The Deputy Convener: That is fine as a generality, but can you give me an example of a specific policy that has changed or a specific expenditure line that has moved because of the refocusing on wellbeing?

Kate Forbes: I mentioned the interaction between the public sector pay policy and taxation. The public sector pay policy is designed to support those on lower incomes by ensuring that there is an underpin at the lower levels. There is a cap of a 3 per cent uplift for those who earn up to £80,000 and, beyond that, the increase is capped at £2,000.

That policy is specifically designed to support low-income families and individuals. The decision has been taken to cap the increase in public sector pay at 3 per cent right across the board to further our ambition of making sure that we protect lower-income workers. That will contribute directly to supporting the wellbeing budget through helping lower-income earners and ensuring that we support a healthier, more prosperous and more economically active population.

The Deputy Convener: Just to change the focus a wee bit, Gordon MacDonald wants to ask about Barnett consequentials.

12:00

Gordon MacDonald: Minister, you mentioned discussions with the Treasury and pointed to the UK Tory manifesto. This is the first time that the Scottish Government has had to produce a budget prior to the UK budget. What difficulties has that led to for the Scottish Government? Have you had helpful discussions with the Treasury?

Kate Forbes: It has all the challenges in it that were identified before the Scottish Government decided to bring forward the date of the budget. It is worth remembering that the reason why we are going first, before the UK Government, is to provide certainty to taxpayers, local government and the wider public sector. It would have been unthinkable to have waited until after 11 March because of the pressure that that would have put on local authorities.

Our difficulty is that any assumptions that we have built in are based, literally, on the Conservative Party manifesto. In conversations looking for guarantees, officials have referred us to the Conservative Party manifesto. There is a lot hanging on taking the Tories at their word.

When announcements have been made in the past, it has only been when we have seen the figures that we have known whether an uplift was going to be in addition to or net of other areas. We have seen that particularly in health, where there was a commitment of £600 million, but the figure was £50 million lower. We have engaged on a number of occasions. As I said, I have assumed £142 million of resource budget consequentials and £326 million in capital. That is drawn from the Conservative Party manifesto costings document for the 2019 election, which contained a detailed breakdown of spending plans and also set out an analysis. Those have been some of the difficulties.

The other difficulty would be further consequentials after 11 March. We can do in-year revisions but, by that point, we will have got through stage 3 of the budget, which is on 5 March—almost a week before 11 March. We need to pass a budget at that point. The consequences of our not passing a budget, which I set out on Thursday, are quite catastrophic. That is particularly the case for social security, because the devolution settlement does not allow flexibility in managing the additional £3 billion of social security spend.

The implications are quite significant, so we cannot wait around until 11 March to see whether there is any more money. I saw an announcement two days ago about spending on buses. That is all very well, but, first, will it be in this year's budget? The press release referred to the spending review, so it will not be in the 11 March budget. Secondly, what are the consequentials for us? We do not know. We cannot build a budget on money that we have not had yet—indeed, it is not just money that we have not had yet but money that has not been confirmed and signed off. Those are the levels of uncertainty that we face. When I say that I have deployed every penny on the face of the budget, I mean that I have deployed every penny; we have deployed every penny that we know might potentially be coming our way, and then there is the £100 million in reserve.

Gordon MacDonald: You talked about the fact that you have had to depend on the Tory party manifesto. We were told that austerity was over, but in the past couple of weeks the Prime Minister and the chancellor have written a joint letter to all UK Government departments—apart from health—looking for cuts of up to 5 per cent. Were you able to factor in any of that?

Kate Forbes: We have factored in the commitment that has been made by the Government and other parties to pass on any consequentials from health to health. Once we do that, the point remains that there is a real-terms cut in the budget. It is a cash increase and a real-terms cut—there is no getting away from that. We have tried to mitigate the impact. As I said, any bonuses from austerity seem to be a long time coming. It cannot be called a bonus if it is just undoing a decade of cuts, or at least trying to undo a decade of cuts.

After uplifts to health, local government and social security, the funding available means that there will be a continuing squeeze on other portfolio areas.

Gordon MacDonald: If there was to be a large divergence from what is in the UK Tory Government's manifesto, how would you cope with that?

Kate Forbes: That would be challenging. We have options that we can revisit—we can make in-year revisions to the budget—but we will not be able to factor anything into our spending plan in advance of 11 March.

We work to the SFC's forecasts, so the assumptions that underpin its forecasts are the assumptions that I have just identified in relation to the consequentials that are available. That is the budget that we have available to us; anything after 11 March will have to be revisited through the normal budget processes.

The Deputy Convener: You said that you cannot build a budget on money that you do not have yet, but, in a sense, you are inevitably having to do that this time round. Moreover, you are inviting Parliament to approve a budget that is based not just on Barnett consequentials but on Barnett consequentials that are anticipated—as you have made clear many times—on the basis of a party manifesto. Has that happened before? Have you had any advice that you can share with the committee about the legality and propriety of inviting the Parliament to formally approve a budget that is based on anticipated consequentials or, as you graphically put it, money that you do not have.

Kate Forbes: There is no getting away from the challenge that this is. Unless anyone else can enlighten me, I assume that it has not been done before.

The fundamental difference between our budget and, for example, the Welsh Government budget is the additional powers and the levels of volatility associated with them. We have taken a prudent approach. We have looked at the evidence on what might be available and we are choosing to invest that as far as we can. We want—I know that I am under pressure from all parties inside and outside the chamber to do this—to invest well in our public services and take the right taxation decisions, but I have to do that in light of the evidence. Ultimately, it boils down to whether the UK Government is true to the promises that it made in the election, and our budget depends on that.

The Deputy Convener: Have you discussed with Treasury officials, or even Treasury ministers, the consequences of presenting to the Parliament a budget that is based on anticipated Barnett consequentials?

Kate Forbes: Our position has been dismissed because the case has been made to us that we should use the OBR figures and the block grant adjustments that were confirmed last December—figures that were ultimately based on figures from last March. The guarantees that we have had are very slim and shallow. There have been interactions with Treasury officials at various levels. They consistently refer us to the Conservative Party election manifesto, so we have drawn our assumptions on additional consequentials from that document.

I do not know whether officials have anything to add to that.

Andrew Watson (Scottish Government): You are right to say that this is an exceptional set of circumstances—specifically the proximity of our budget to a future UK budget and the position on the Barnett consequentials.

First, any budget is based on a range of assumptions of different sizes and scales. For example, a set of forecasts underpins the income levels in our budget, our tax powers and non-domestic rates. Any uncertainty about the Barnett consequentials figure needs to be put in the perspective of a wider budget and the whole set of things that go into it.

Secondly, there is precedent, in that we have allocated money in previous budgets based on anticipated transfers that were not in the base budget.

Thirdly, on how we have handled the consequentials, the minister is correct to say that we have engaged with Treasury officials. The discussions have been very positive and constructive, but those officials have also made the point to us that, as with any budget, the final outcome for the devolved Administrations is based on the whole budget that is being put together down south; only then will we get the net effect for us in terms of consequentials. We have been guided by the fact that there is no practical alternative to the manifesto.

The last point that I will make is on the way in which we have judged the resource and capital numbers. On the resource side, we feel that we have been pragmatic. The majority of the consequentials that we have allocated relate to health, around which there is—one could argue—

a degree of certainty. We have also taken a pragmatic approach on the capital side, taking into account the overall long-term commitment that the UK Government has made to infrastructure investment over the piece. We have done all that we can to mitigate the level of uncertainty in setting the numbers out. However, as the minister said, until we see the colour of the budget on the 11 March, that uncertainty will continue.

Sarah Boyack: My questions are about the process thereafter. How long will it take you to come to conclusions about what the impact is and whether you need new budget lines? In addition, how will you report back to the Scottish Parliament so that there is transparency and accountability around those decisions?

Kate Forbes: There is already a process. I appear in front of the committee twice a year for the autumn and spring budget revisions. At those times, the Government comes before Parliament and the committee for the purpose of scrutiny of the changes that are being made to the budget. That will be the process. It is very difficult to answer the question without knowing the magnitude of the changes; I assume that they will be in line with the changes that would ordinarily go through the autumn and spring budget revisions, which come before Parliament. However, where this issue is critical is in relation to discussions with other parties in advance of 5 March in order to get the budget passed, in that we cannot discuss money that is not there. In the past, there have sometimes been late consequentials as a result of the UK Government's budget, because it has been passed before the Scottish Government's budget. However, we do not have the luxury of that this year.

The Deputy Convener: I think that Tom Arthur wants to ask about the fiscal framework.

Tom Arthur: Good afternoon, minister. Although much of my line of questioning has been covered, I would be interested to hear the minister expand on what themes she thinks will inform the upcoming review of the fiscal framework, in light of the experience of setting this budget.

Kate Forbes: On the fiscal framework, we have previously written to the Chief Secretary to the Treasury—in September, I believe—identifying the areas that we would like the review to focus on, which largely look at how we smooth volatility. As I mentioned, we have very tight borrowing powers, which are very constrained in relation to how, when and how much we can borrow; the thresholds do not even reflect inflation. That is our difficulty. We are at the beginning of having more powers over social security, when the data perhaps still needs to be built and developed by those who are responsible in order for forecasting to be as accurate as possible—that will be an on-going and iterative process of improvement—and we have levels of volatility that we need to manage. At a UK Government level, the volatility sometimes goes into the billions, but the UK Government has substantial borrowing powers to smooth it over. We do not have those powers.

It is about recognising how that volatility disproportionately impacts our budget and what tools we have available. At the end of the day, if we cannot smooth volatility through borrowing powers, we have to smooth it with resource that could otherwise be spent on dealing with child poverty or building an inclusive economy or in all sorts of other areas. Not being able to smooth volatility is one of the core issues that arises because of the lack of flexibility in our borrowing powers.

Tom Arthur: One of the key values that underpin the Scottish approach to social security is seeing it as a long-term strategic investment in our people. Is there a case for the fiscal framework to reflect that—if not immediately then in the future—in terms of our borrowing powers? Our existing powers are about managing volatility rather than seeing social security as a long-term investment from which the economy and society would see a return over the longer term.

12:15

Kate Forbes: Absolutely. Borrowing to smooth volatility frees up resources to be invested in those long-term ambitions. That is what we want to see when it comes to our infrastructure and resource spend—we want the long-term outcomes that are captured in the national performance framework to be realised. That can be done only by using the resources that we have as widely as possible and investing wisely. I would far rather be investing in measures that are designed to tackle poverty than in measures that are designed to deal with forecast errors, although the need to do that is clearly important and needs to be factored in. Although we recognise the importance of the forecasts, which are prepared independently, we want the freedom and the flexibility to invest in the things that matter to the people of Scotland, to members of Parliament and to this committee.

Tom Arthur: With your permission convener, I will ask a brief supplementary about an issue that the minister raised earlier: the potential for the digital economy vis-à-vis productivity. We know that the key underlying reason for the variation in growth between the rest of the UK and Scotland is ultimately demographic and relates to population numbers. The SFC has effectively confirmed that and has also stated that low productivity is a challenge across the UK. What opportunities are there through investment in the digital economy to address productivity issues?

Kate Forbes: I frequently say that the digital economy is the most important area of Government, but I think that all my colleagues would dispute that. The digital economy goes right to the heart of our challenges with productivity because—I heard a little of the SFC's evidence earlier—there is no magic solution when it comes to productivity. Actually, the SFC's report identifies a long-term trend of difficulties with productivity since about 2004. Many countries around the world struggle with productivity. At the end of the day, if we do not have the powers that we would like to have to increase our population, although we will continue to use the powers that we have in order to make Scotland an attractive place to live, work and invest, we need to support every individual and business in Scotland to use the digital resources that are available to them.

As part of my own portfolio around data-driven innovation, we are looking at how we can make better use of data and emerging technologies, including artificial intelligence and automation, and at how we can support our workforce to transition through the digital economy. We want to continue to have a highly skilled workforce and to ensure that people have the skills that they need to manage the new opportunities that are available because of digital. That is one of many ways to tackle productivity.

It is also worth saying that we build on strong foundations. There have been a number of announcements in the past few weeks alone about international companies that have opened new tech hubs in Glasgow and Edinburgh because they recognise that Scotland has a digitally skilled workforce. That will mean that our productivity growth continues to increase.

The Deputy Convener: Patrick Harvie has been waiting patiently.

Patrick Harvie: The speech that the minister made when presenting the budget to Parliament had a huge amount of content on the Scottish Government's response to the climate emergency. I would like to explore whether the substance of the budget matches up to what was in the speech.

A SPICe analysis of the total budget shows that there was a substantial reduction in the carbon intensity of the Scottish budget in 2018-19. There was a further reduction in 2019-20 but, in the 2020-21 budget, there is an increase and the carbon intensity is higher than in either of those two years. What is the reason for that and why should we welcome it?

Kate Forbes: We should welcome the budget because there is a significant step change in the amount of money that is being invested in low-carbon infrastructure. That has gone up by £500 million to £1.8 billion overall.

The change in greenhouse gas emissions is almost entirely a result of the European Union common agricultural policy payments and UK social security payments moving over to the Scottish budget in that timeframe, which has increased the emissions that are associated with Scottish Government spending. By removing the spending that was previously funded by the EU and the spending on the social security programmes that was previously funded by the UK Government, it is possible to arrive at an estimate that is broadly comparable with the figures in last year's budget. The figures are broadly in line if we apply this year's updated model to last year's published budget. I would be happy to provide the figures and how I have arrived at that position in writing.

Patrick Harvie: Thank you—I would appreciate that. You claim that £1.8 billion is being invested in low-carbon infrastructure—you said that in your speech last week, too. We asked the Parliament's researchers whether they had a breakdown of that investment. They did not, so they asked the Government, but they were told that the person who knew the answer was on holiday. Do you know the answer? What is the breakdown of the £1.8 billion?

Kate Forbes: I can certainly tackle some of it, but it will take quite a while to get through the entire £1.8 billion. I can give a partial answer. The figure includes the £120 million investment in the heat transition deal, £50 million in the heat networks early adopters challenge fund and £83 million in the future transport fund.

Patrick Harvie: I have some of those specific details already. Can you provide the committee with an overall breakdown of the £1.8 billion figure in writing?

Kate Forbes: Yes. That is probably easier than going through every line of the budget right now, as fun as that would be.

Patrick Harvie: That would be helpful. It is a substantial sum of money, but we would like to know how it breaks down.

You mentioned the CAP payments, and the rural economy is one of the most carbon-intensive areas of the budget. The next most carbon-intensive area below the rural economy is transport, infrastructure and connectivity. The SPICe analysis says:

> "Future funding for infrastructure to support new rail routes, bus services, electric vehicles, walking and cycling remain dwarfed by the commitment to invest £6 billion over the next 10 years in dualling the A9 and A96 trunk roads, alongside other trunk road improvement projects such as the Sheriffhall roundabout flyovers ... or A7 Maybole bypass ... Significant investment in major road projects has been found to generate 'induced demand', and this investment may simply create additional trips by car, as

appears to have happened with the Queensferry Crossing. It also generates significant emissions during construction and locks in higher emission travel choices for years to come."

The analysis concludes:

"This significant trunk road investment appears at odds with the Infrastructure Commission's recommendations that no net additional capacity for private cars be added to the road network and that action needs to be taken to manage demand for road transport. It is also difficult to see how it is compatible with the climate commitments in the new"

national transport strategy. What is your response to that?

Kate Forbes: We will publish the national transport strategy. Just as our budget reflects our commitments to tackling climate change, so, too, will our decisions on infrastructure. I recognise Patrick Harvie's position on significant infrastructure spend on roads, for example, but that is not the only way to transition and to deal with our carbon emissions. Creating the conditions to phase out the need for petrol and diesel cars in the public sector fleet—and, ultimately, in the private sector—and phasing out all remaining petrol and diesel vehicles by 2030 is an ambitious target that we intend to meet. When it comes to managing transport, it is simplistic just to say that we should cut all the road projects, particularly when some of them—I am thinking about the A9 dualling—are a lot more to do with safety and security than anything else.

Patrick Harvie: The infrastructure commission's recommendation was not about not spending on safety; it was about not spending on increasing the overall capacity. Can you give me an example of reduced transport spending or of a decision not to proceed with a project as a response to the climate emergency?

Kate Forbes: I can think of ambitions to shift our behaviour and our focus. Turning the A9 into an electric super-highway as it is dualled is an obvious example of a project on which we have chosen to invest in low-carbon infrastructure. We have ensured that any measures taken to dual it—which have a lot to do with safety and security—also reflect our ambitions on climate change.

Patrick Harvie: We will know whether that investment increases road traffic levels only after the fact, as we did with the Queensferry crossing. I was asking whether there is an example of anything that has not proceeded, or on which you have spent less, as a response to the climate emergency.

Kate Forbes: Our commitment to increase investment in low-carbon infrastructure from £500 million to £1.8 billion could happen only because we have looked for efficiencies elsewhere. Our commitment to investing more in low-carbon infrastructure projects is a direct result of our having made many such choices over the weeks in advance of the budget announcement, when matters were discussed and weighed up at length, which has resulted in a decision to invest in low-carbon infrastructure.

Patrick Harvie: That still sounds like more of everything.

Can you identify any part of the budget that is intended to achieve a reduction in road traffic demand, as the infrastructure commission recommended?

Kate Forbes: There is an increase in the budget for active travel.

Patrick Harvie: Cuts from the previous two years have been reversed and the amounts is back to where it was three or four years ago.

Kate Forbes: We have increased that budget.

Patrick Harvie: As you said a few moments ago, you cannot call something a bonus if it simply reverses cuts from previous years.

Kate Forbes: You asked for an example: I have given you an example of where we have increased spend.

Patrick Harvie: By what proportion, do you estimate, will that reduce road traffic demand?

Kate Forbes: That goes to the heart of the questions around methodology—how the entire impact of the budget is measured on carbon emissions—and, ultimately, about our commitments in the climate change plan. That issue will be in front of the Environment, Climate Change and Land Reform Committee next week, when it will consider how to measure the impact of the budget. We made a commitment to improve the methodology, which will be rolled out for next year's budget, at the request of people who wanted to ensure that it was robust.

Patrick Harvie: I am sorry to be persistent, but we are all aware that transport is one of the areas where the clearest change of direction is needed. Transport emissions have been going up, not down. We will not take the rhetoric on the climate change emergency seriously unless we see significant change.

Is there anything in the budget that will begin to reverse 40 years of consistent increases in the real-terms price of public transport? Over the same time period, the cost of owning and using a car has stayed the same or has become more affordable, in real terms.

Kate Forbes: We are investing £83 million in our new future transport fund, which is for low-emissions and electric buses, freight facilities and expanding electric-vehicle charging points.

Patrick Harvie: How will that reduce the price of public transport?

Kate Forbes: If public transport services are more reliable, there will be a reduction in cost. If more freight is transported by rail, rather than by lorry, that will reduce emissions.

Patrick Harvie: I did not ask about emissions; I asked about the price of public transport. For example, what will be done to cut the cost of bus fares? Is there anything in the budget that will achieve a change in the prices that people pay?

Kate Forbes: We are maintaining the concessionary travel scheme. We are also investing in roll-out of—

Patrick Harvie: “Maintaining” sounds like business as usual, rather than an emergency response.

Kate Forbes: I do not think that there is any way that you can look at the budget and suggest that we are just “maintaining” what we have been doing.

Patrick Harvie: “Maintaining” is the word that you just used.

Kate Forbes: There is no way that you can look at the budget and suggest that we are maintaining our spend. We have consciously chosen to shift resource to low-carbon infrastructure, and £1.8 billion is a significant headline figure.

The Deputy Convener: Mr Harvie, you can ask one more question, and then we must move on.

Patrick Harvie: I was simply going to ask for an example of anything that will reduce bus fares. I was also going to ask whether the Scottish Government has looked at the proposals—which have come from within Parliament and from outside it—to cut bus fares for young people, which would be one step in the right direction. That would be an easy and affordable move and, I suspect, a popular one, which would make it easier for young people to get to college or work. It would also cut costs for families who choose to use public transport instead of a car.

Kate Forbes: The Labour Party has also raised that issue, and it is one that we are willing to look at. As I said in the chamber on Thursday, I would particularly like to see costings for that proposal.

12:30

In this year’s budget, we have increased the overall funding for rail and bus services, including supporting the national concessionary travel scheme, but if there are other proposals—such as expanding that scheme to people aged 20 and under, which I understand is a proposal that the Labour Party has identified—I will be very happy to look at them. However, my questions would be very much along the lines of how much such proposals would cost and where the money could be found.

The Deputy Convener: There is a fine line, which I fear we might be starting to cross, between budget scrutiny and budget negotiations. With that in mind, we will move to a question from Murdo Fraser.

Murdo Fraser: You said earlier that you are looking forward to working constructively with Opposition parties to try to reach agreement on the draft budget, which of course needs a majority in order to get through Parliament. At least twice in the past hour and a half, you have also said that “every penny” in your draft budget has been accounted for, which echoes what you said in your statement in the chamber last Thursday. That form of words will be very familiar to members of the committee, because it was used on at least three previous occasions at this stage in the budget process by the then Cabinet Secretary for Finance and the Constitution, Derek Mackay, when he was in the seat that you are in now.

It is fair to say that committee members perhaps got into playing a bit of a game with Mr Mackay. He would come along to our meetings and tell us that every penny was accounted for. We would then press him on how much money might be down the back of the sofa, but he would assure us that not a single penny that was not already in the budget would be found anywhere. However, lo and behold, some three weeks or so later, or even earlier, he would, when we were debating the budget bill at stage 1, produce as if by magic, out of the ether, vast sums—£100 million or £120 million extra, and sometimes more—that had not been revealed to the committee when he had been sitting where you are now.

Minister, I know that you delivered the statement on the draft budget to Parliament last Thursday. However, of course all the work to set it up was done by Derek Mackay, so it is very much his budget. It would be a remarkable departure from form on his part had he not done what he did on all three previous occasions, which was to produce a budget and assure us that every penny was accounted for, while keeping a little in reserve for his budget discussions. In the spirit of good will and constructive working, and to help all the Opposition parties, why not just tell us now how much money you have squirrelled away, so that we can all then have a proper grown-up and constructive discussion about the budget?

Kate Forbes: Murdo Fraser should factor in the fact that this year we are, on two fronts, working in unprecedented circumstances. One is that this is the first year of reconciliations, and the other is that we do not yet have all the consequentials agreed—some are only anticipated and are not guaranteed. In that light, I can say unequivocally that every penny has been deployed, including the £100 million that has been in reserve. We made a judgment about that £100 million to ensure that we were maximising the resources that were available to us to invest, while maintaining a buffer.

However, in light of the fact that we have anticipated consequentials that are fully allocated within the budget, there is no more resource. It is worth noting that, last year, some consequentials were announced late. If the UK Government were to announce those right now, I could answer the question in a more informed way. However, as things stand, every penny has been deployed. That is why my position is that where there are spending increase requests, the money will have to come from somewhere else.

Murdo Fraser: Thank you. Time will tell.

The Deputy Convener: You mentioned reconciliations. I have some final questions about the detail of the process around those.

In May, the SFC told us that negative income tax reconciliations of about £1 billion were forecast, which would need to be dealt with in the next three budgets. We now have audited outturn data for 2017-18 and substantial published outturn data for 2018-19. Earlier this morning, the SFC told us that the situation is very unlikely to change and that the reconciliations figure is still about £1 billion. Do you accept that that is now unlikely to change significantly?

Kate Forbes: That is a question for the forecasters, to be honest. The question for us is how we will deal with reconciliations. We have used the levers that are our at our disposal to manage the reconciliation this year. We recognise that reconciliations are part and parcel of the fiscal framework. The SFC said that

“They do not ... relate to the relative performance of revenues”

in Scotland and the rest of the UK. Due to historical forecast error for such a large tax, three years of negative reconciliations “should not be unexpected”, according to the SFC.

That is our position. We will use the resources that we have available to us. Again, the issue demonstrates the weaknesses of the fiscal framework with regard to use of levers on borrowing. We will have to make a judgment at every budget to manage those reconciliations.

The Deputy Convener: The medium-term financial strategy that your Government published in May last year stated that you aimed

“to build up the balance in the Scotland Reserve over time, as resources allow, in order to have a financial cushion available,”

and that that approach was intended to keep

“the economic cost of revenue-funded investment and resource borrowing as low as possible, to achieve value for money.”

Why, then, is the priority in this budget to use resource borrowing to pay for negative income tax reconciliation, rather than employing the Scotland reserve?

Kate Forbes: If we were to build up a significant reserve, there would be lots of accusations that we were not using our resources as well as we could to invest in public—

The Deputy Convener: So the reason is political, not economic.

Kate Forbes: There is a judgment to be made on the reserve. We have made a prudent judgment and determined that maintaining a reserve of £100 million is fair, as that allows us to invest in the areas that people call for us to invest in, while ensuring that there is a bit of a buffer. This year, we have chosen to use our borrowing powers to smooth out the volatility and make the £207 million reconciliation, because that will ensure that the reconciliation will not take away from money that is being invested.

I do not know whether anybody else wants to speak about reconciliation.

Lucy O’Carroll (Scottish Government): The important point is that the fiscal framework provides for the use of a certain amount of money to deal with forecast error, and that is what is being deployed this coming year, as appropriate.

The Scottish Fiscal Commission has set out its estimates for the level of likely forecast error for income tax for the next couple of years, and you can see that they are sizeable. However, over the long term—which, for economists, is 20 to 25 years—a forecaster with the amount of experience that the SFC and the OBR have would expect to see that forecast error net out to zero. We are currently seeing a run of negative reconciliations, but there will be periods when we see runs of positive reconciliations. We have just not got there yet.

The Deputy Convener: We are specifically interested in whether the approach that you have taken in the budget has changed from the one that was taken in the medium-term financial strategy or whether, in your estimation, the approach that you have set out in the budget is a reflection of the policy that was set out in the medium-term financial strategy.

Kate Forbes: The approach that has been taken in the budget builds on the medium-term financial strategy.

The Deputy Convener: That is a very interesting answer—you used the phrase “builds on”. Does the approach in the budget represent a change of approach or is it the same approach that was taken in the medium-term financial strategy?

Kate Forbes: I do not think that there are any big differences. The approach in the medium-term financial strategy was based on the forecasts that we had available to us. This budget reflects the themes that were in the medium-term financial strategy; there has not been significant policy change in that time. However, officials have been more involved than I have in the process that has taken us from the medium-term financial strategy to this point.

Andrew Watson: I would make two additional points on borrowing. On the distinction between drawing on the resource-borrowing powers and using the reserve, the committee knows that the discretion that we have over how to use resource borrowing is quite limited. Under the fiscal framework, one of the key purposes of resource borrowing is to tackle the issue of reconciliations, whereas we can do a wider suite of things with the level of resource that the reserve gives us. There is a judgment to be made about how those different tools should be used, and the judgment that we reached was to use resource borrowing to tackle the reconciliation.

On the medium-term financial strategy, one judgment that we have made in this budget is on capital borrowing. In the light of a number of pressures—in terms of the economy, the impact of the UK’s exit from the EU and the case for additional investment on the back of that—coupled with the shift towards increased investment in low-carbon infrastructure, there was a strong case for looking again at the capital borrowing.

Those are two examples of the judgments that we have reached in the budget.

The Deputy Convener: I will take a final question from Neil Bibby.

Neil Bibby: Thank you, convener. Clearly, we need to grow the Scottish economy. The Scottish Government and the minister have talked about prioritising inclusive growth, and the minister has told us about the measures that are being taken to get people back into work. My concern is that the rhetoric of those statements does not quite match reality.

I say that because, despite the Scottish Government’s budget increasing, the line for employability and training has had a 0.4 per cent real-terms cut. Within that line is the employability and workforce skills budget, which includes programmes such as the local employability model, the employability fund, the discovering your potential fund—which is aimed at reducing inequality by targeting care-experienced young people in relation to the labour market—the disability employment gap fund and other areas such as the partnership action for continuing employment approach. That budget has been cut by 2.5 per cent in cash terms, which would obviously be greater in real terms, taking into account inflation.

Will the minister tell us why that is and provide the committee—perhaps in writing—with a breakdown of the impact that the budget will have on each of the components of that budget line?

Kate Forbes: I am happy to follow up with more information in writing.

On the decisions that have been made in this year’s budget, our commitment is to invest through our enterprise agencies and other funds, some of which I have mentioned this morning. Every year, we look at new ways to support people into work, to support the workforce and to ensure that our economy is thriving and doing well. Particularly at a time when we have low unemployment and face more significant challenges around inactivity, we want to ensure that all our spending decisions maximise the opportunities that are available to people.

In a year in which the Scottish national investment bank is increasing in terms of its resource, and when a number of the other funds that I mentioned—on which I can go into detail again—continue to support people into work, it stands to reason that we should look at the budget in the round to make sure that the outcomes and impacts are more significant than the inputs.

Neil Bibby: Thank you for that answer. I look forward to receiving the information that you mentioned. However, do you not accept that, when employment levels are 2 per cent lower than in the rest of the UK, it seems counterintuitive that the Scottish Government is cutting employability budgets?

Kate Forbes: I do not accept that we are cutting budgets to support people into work. I also do not think that you can look at those specific lines in isolation from everything else that we are doing to support people into work, including through real-terms increases for higher and further education. That is another example of where we are supporting the skills base to ensure that the workforce thrives and has the skills that it needs to face the challenges of the future.

I have picked up the fact that the committee had a discussion with the SFC about the difference between employment and unemployment, and Lucy O’Carroll might have a point to make on that.

Lucy O'Carroll: On the discussion that the committee had with the SFC, the situation as regards employment levels in Scotland relative to those of the UK is explained by a higher rate of inactivity in Scotland, which is caused by two factors. One factor is at the lower-age end of the workforce and is to do with people still being in education and training, which can be seen as a positive, because it provides the skilled workforce for the future. The other factor is at the older end of the workforce—that is, people aged 55 and above. There has been a long-standing issue in Scotland of older workers leaving the workforce earlier, in part because of health issues.

That illustrates that the employment story for Scotland is about education, skills and training, but that it is also related to the health budget and the work that is done there. Finally, I observe that tackling those issues is a long-term project.

Kate Forbes: All that is to say that, as with every budget, we do not choose to continue budget lines just for the sake of it. Ultimately, we want to ensure that budget lines deal with the core challenges and improve outcomes—that is, the national performance framework outcomes. We want to make sure that our resource is fully maximised to deliver better outcomes, not simply to protect budget lines.

Neil Bibby: To clarify, will you nonetheless provide a breakdown of how the budget impacts those employability budgets?

Kate Forbes: Yes, I will take that away.

The Deputy Convener: I thank the minister and her officials for their evidence.

Meeting closed at 12:45.

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