



OFFICIAL REPORT
AITHISG OIFIGEIL

Finance and Constitution Committee

Wednesday 4 March 2020

Session 5



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FINANCE AND CONSTITUTION COMMITTEE
6th Meeting 2020, Session 5

CONVENER

*Bruce Crawford (Stirling) (SNP)

DEPUTY CONVENER

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

COMMITTEE MEMBERS

*George Adam (Paisley) (SNP)

*Tom Arthur (Renfrewshire South) (SNP)

*Neil Bibby (West Scotland) (Lab)

*Alexander Burnett (Aberdeenshire West) (Con)

*Donald Cameron (Highlands and Islands) (Con)

*Angela Constance (Almond Valley) (SNP)

*Patrick Harvie (Glasgow) (Green)

*John Mason (Glasgow Shettleston) (SNP)

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

*attended

THE FOLLOWING ALSO PARTICIPATED:

Kate Forbes (Cabinet Secretary for Finance)

Graham Owenison (Scottish Government)

Andrew Watson (Scottish Government)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Finance and Constitution Committee

Wednesday 4 March 2020

[The Convener opened the meeting at 10:00]

Budget (Scotland) (No 4) Bill: Stage 2

The Convener (Bruce Crawford): Good morning and welcome to the sixth meeting in 2020 of the Finance and Constitution Committee. The first item on our agenda is evidence on the Budget (Scotland) (No 4) Bill at stage 2. This is the opportunity for the committee to put questions on the bill and its amendments to the cabinet secretary and her officials before we move to the formal proceedings. We are joined for this item by Kate Forbes, Cabinet Secretary for Finance, and Scottish Government officials Andrew Watson, director of budget and public spending, and Graham Owenson, head of local government finance. I welcome the witnesses to the meeting.

The Cabinet Secretary for Finance (Kate Forbes): I have some brief comments that will cover both sections of the meeting. Before turning to the stage 2 amendments, I put on record my thanks to the committee for its report on the budget—to which I responded yesterday—and for the constructive and flexible approach that the committee has taken to this year's budget process. As committee members will be aware, the truncated timetable continues: the principles of the Budget (Scotland) (No 4) Bill were agreed last week, consideration of the Scottish rate resolution will take place in Parliament this afternoon and stage 3 will follow tomorrow.

The amendments have two broad purposes: five amendments give effect to the budget increases that were agreed with the Green Party, which I outlined at stage 1; and 15 amendments update schedule 1 to the bill to reflect the revised ministerial portfolios. As I confirmed to Parliament on 26 February, as a result of the agreement with the Greens, I will be providing an additional £95 million in resource to local government and an additional £60 million for the transport, infrastructure and connectivity portfolio, which consists of £15 million in resources to introduce free bus travel for young people aged 18 years and under—subject to the necessary preparations—and £45 million capital for net zero projects, £15 million of which will be transferred to local government. There is also an additional £13 million of resource and £5 million of capital to the

justice portfolio for police services. Overall, those amendments increase the Scottish budget by £173 million, which is £123 million of resource and £50 million of capital. I outlined the source of that funding in my letter to the committee of 28 February. I am happy to take questions on all of that.

The Convener: In your initial budget proposals, you included the sum of £468 million of anticipated Barnett consequential. On 12 February, you told the committee that those anticipated consequential had been fully allocated in the budget and that there was no more resource because every penny had been deployed. You then told the committee that, since the budget was published on 6 February,

"It has become clear ... that additional consequential of up to £43m are due to the Scottish Budget in respect of the Fossil Fuel Levy"

and that

"A revised assessment in respect of wider UK Government consequential has been made"

as a result. When and how did it become clear that additional consequential would be due and when did you decide to carry out the revised assessment of the wider United Kingdom Government consequential?

Kate Forbes: Thank you for the question, convener. As members will be aware, in order to provide certainty to ratepayers and public services, I needed to secure safe passage of the budget, which required me to find agreement with at least one other party in the Parliament. Although the parties were very forthcoming with what they wanted to see, they were slightly more hesitant in saying—with some exceptions—where they wanted that money to come from. Therefore, I had to review the assumptions that underpinned the budget. I set out how the agreement with the Green Party was to be funded in my letter to the committee of 28 February.

In particular, there was some late information that emerged when the UK Government notified English councils about provisional non-domestic rates. That was too late to inform the original budget proposition, but we have since analysed the implications and taken those into account. Specifically on the fossil fuel levy, the Office of Gas and Electricity Markets contacted us on 18 February with new information that has informed our current position.

As members know, the budget has taken place in exceptional circumstances. There has been a higher level of risk in light of the fact that we have baked in anticipated consequential and are therefore exposed to whether the United Kingdom Government delivers on its manifesto commitment.

Clearly, I needed to revisit the judgments and assumptions so that I could deliver a budget.

The Convener: You used the word “risk”. I am interested in understanding the extent of that risk and how you will deal with a shortfall in funding, if funding does not materialise as anticipated.

Kate Forbes: When it comes to risk, there is always a judgment call to be made. The context is important in that regard. I deemed the risk of not delivering a budget at all and thereby creating huge uncertainty for ratepayers and public services to be higher than the risk of making the judgments that I made about funding sources.

There is always a degree of risk when we make assumptions and rely on forecasts—and, under the fiscal framework, that applies to a larger proportion of our total budget, given the assumptions that are built into the block grant adjustment and forecasts of tax receipts and social security expenditure.

The assumptions that I have made as part of the funding package need to be seen very much in the context of the wider risk that is associated with this particular budget, in light of the fact that we are acting before the UK Government does. As I said, if the UK budget delivers less than we have assumed that it will deliver, we might need to review our position. It is worth bearing in mind that there might be a number of fiscal events this year that have an impact on the Scottish budget.

The assumptions that we have made are prudent and within a level that can be addressed through routine budget management processes. However, I do not want to hide the fact that there is risk, because this year we are more exposed to what the UK Government does or does not do than has been the case in previous years.

Finally, it is worth noting that, in light of all that, we have considered and included different sets of assumptions in order to spread the risk. The approach that I have taken draws on a mix of funding sources: underspend, the non-domestic rates pool, the fossil fuel levy and assumptions about the UK budget. That means that, if there is variation in one area, the hope is that the mix of funding sources will mitigate and certainly spread the risk, reducing our exposure.

The Convener: There is significant concern about the coronavirus outbreak and its impact on Scotland. The primary concern is health and the impact on people, of course, but there is also the potential for the virus to have a significant financial impact.

There are reports that the Chancellor of the Exchequer is reassessing his budget in light of the coronavirus outbreak. What discussions have you had with the UK Government on the matter and on

potential funding to support the response that the Scottish Government will necessarily have to make? I am thinking, not least, about the health budget, but the issue will affect all parts of life and will no doubt have an impact on the economy.

Kate Forbes: Notwithstanding the obvious, serious human impact, we are very mindful of the need to make appropriate preparations in our budget, including in the context of what the national health service is doing.

I had a call with the Chief Secretary to the Treasury, Stephen Barclay, last week—on Wednesday, if I remember correctly—and I raised the issue with him then. It is important that we are able to share information and have on-going dialogue about funding. It is not yet clear—and Stephen Barclay could not provide me with any clarity on this—how the UK Government will respond to the matter in its budget next week, never mind how it is responding now in terms of potential funding and consequentials.

I have a quadrilateral next week, on Tuesday, when, along with my Welsh and Northern Irish counterparts, I will again speak to the Chief Secretary to the Treasury. The issue is on the agenda, and I will be happy to keep the committee informed about associated funding developments as they evolve.

The Convener: It is important that you let us know as soon as you can about where that might be going, and particularly about the health budget challenges, at least immediately. Any light that you can throw on that after your quadrilateral next week would be very helpful. I know that we are going to discuss health today.

Angela Constance (Almond Valley) (SNP): Good morning, cabinet secretary. I am aware that, during the stage 1 debate, you spoke about the Cabinet Secretary for Health and Sport having identified £10 million of resources in her portfolio to increase the investment in tackling the harm that is caused by drug misuse. Can you provide more detail on the source of that funding and—this is important—how it will be spent?

Kate Forbes: As Angela Constance said, I announced at stage 1 that the Scottish Government was making available additional funding to help to reduce the harms and deaths that are caused by drug and alcohol misuse. That additional funding is up to £20 million, and that is an increase of £7.3 million from within the health portfolio. Therefore, that is money that Jeane Freeman has identified in her portfolio on top of the initial proposals in the draft budget. Although it is, of course, for Jeane Freeman to talk about health spending, that money will help to deliver the recommendations of the drug deaths task force and provide investment for mental health support.

It will also allow wider consideration of additional NHS-funded rehabilitation beds. That means that, for the 2020-21 budget, Scottish Government and NHS funding for reducing the harms from drug and alcohol use will rise to £95 million in total.

Angela Constance: Obviously, tackling inequality in all its forms is an important part of the budget. Can you speak about the overall contribution that your budget will make to supporting low-income households and helping the Parliament to meet its child poverty targets, bearing in mind that, to meet our targets, we have to move beyond mitigation and not just prevent people from going backwards but lift them out of poverty?

Kate Forbes: The coming budget year is critical because, although we have been investing in mitigating the worst impacts of UK Government welfare cuts, the first Scottish child payments will be made next year in order to put money directly into the hands and pockets of eligible children and families. Our spending plans therefore most certainly support low-income households.

Previous estimates have suggested that we expect to spend at least £1.4 billion in total to mitigate the worst effects of cuts and tackle child poverty head on. That includes £21 million for the Scottish child payment. There is also still the £110 million to mitigate UK Government welfare cuts, including almost £60 million to mitigate the bedroom tax, and over £180 million to close the poverty-related attainment gap in schools.

The budget certainly tries to deliver on tackling child poverty head on, which is one of our four key strategic aims.

Angela Constance: The Convention of Scottish Local Authorities and others have argued for increased resources for councils, which has resulted in £95 million going to local government over and above what is in the draft budget. I know that £50 million of that comes from a reprofiling of the non-domestic rates income distribution.

I understand that the calls for that additional resource principally related to the climate emergency and child poverty, and I know that the money is not ring fenced. I support decisions being made locally and local accountability, but do you have any sense of where that additional resource for child poverty will be directed to and whether it will be for mitigating decisions that have been taken elsewhere or for measures to lift children out of poverty? We should bear in mind that we are accountable for our targets and that we need to understand when investment is mitigating to prevent people from going backwards and when it is taking people forward.

10:15

Kate Forbes: It is important to stress that that £95 million is not ring fenced, so it will be for local authorities to determine how that money is spent.

On the question of COSLA working in partnership with us to deliver common aims, we are both signatories of the national performance network, one of the outcomes or indicators of which is tackling poverty and inequality. My hope, certainly, is that that funding, which is resource funding, will be used to support the families and children who rely on public services the length and breadth of the country. We are stepping up considerably our efforts to tackle poverty, which is why we have the Scottish child payment in place. We have to work closely not only with COSLA but with every public body to do that, because I do not think that any organisation can tackle that in isolation. There needs to be a streamlined, joined-up approach to dealing with poverty.

The Convener: I know that a number of members want to ask about support for under-19s using bus services, so we will deal with all of that in a oner.

Alexander Burnett (Aberdeenshire West) (Con): I would like to know what climate change assessment was done on the policy. Obviously, giving free travel to people who do not drive might have less of an impact than, for example, maintaining the bus services that are being removed in various areas across Scotland, and particularly in the north-east.

Kate Forbes: I think that the policy change is profoundly valuable not only in terms of meeting our climate change targets but in terms of supporting young people, particularly in rural areas. I started working in a rural area when I was a teenager and spent the first hour's wage just on getting to my workplace, so I think that the policy will make a huge difference to young people across the country.

It is important to say that we have made the commitment as part of our agreement with the Greens and that we now need to get moving on the preparations and due diligence that are required. Transport Scotland is urgently developing project plans to deliver on the commitment. Three initial workstreams have been identified to explore how best to deliver. It is important that we do that work in partnership with young people in rural and urban areas to ensure that it delivers the improvements that they want to see in public transport.

Alexander Burnett: My point is that, if there are no bus services in rural areas, because they have been cut, it does not matter whether they are free or not.

Kate Forbes: Often, bus services are cut because they are not viable. As someone who represents a rural area, I am aware of the fact that, sometimes, they are not viable because they are not used well enough, and that that is because they are too expensive. My view is that, in the same way as we have seen a take-up in bus service use by over-60s as a result of Government policy, we will see that happen among young people. Where a young person has had to choose to drive—if they have had access to a car—or just to stay at home instead of going to a sports tournament or a youth club or taking an extracurricular activity at school that would require them to stay late, they can now choose to take the bus. The more people who take the bus, the more viable the service and, the more viable the service, the more likely it is that it will be retained.

Alexander Burnett: You mentioned the work that needs to be done in preparation for the introduction of the policy. What consultation has been done with the bus companies before the announcement not only with regard to the overall free travel policy but with regard to the £15 million for preparatory work?

Kate Forbes: The costings were arrived at in consultation with Transport Scotland and the work is to allow us to understand the implications in advance of any announcement. You should bear in mind that the policy has come out of budget negotiations and a budget deal. As every party appreciates, those conversations are private and confidential. Obviously, we need to identify as much of the detail of the issue as possible, but I was clear in my letter that there is still some work to be done around making the appropriate preparations and conducting due diligence to ensure that what we do in this space works.

John Mason (Glasgow Shettleston) (SNP): I am very grateful for my card, which gives me, as an over-60, many opportunities to travel on the bus. Will the arrangement be the same for young people, or are you suggesting that they might get something different? I get free bus travel and pay a reduced fare on the trains in Strathclyde, and I get to go on the subway for less.

Kate Forbes: At the moment, the Young Scot card-based, non-statutory young people's bus discount scheme is in place. I can go into detail of the three workstreams that we are proposing in order to ensure that preparations are done. There is some flexibility in how the scheme is rolled out but, ultimately, we want to ensure that it is easy and straightforward for a young person to get on and use the bus. The scheme may involve building on the discount schemes that are already in place, so that we are not starting completely from scratch.

John Mason: I will talk about the £15 million that has been mentioned. I accept that, inevitably, there is a bit of uncertainty about the timing of the introduction of the scheme, because it depends on when you complete all the work. If the scheme gets going next January, such that it will run for three months of the coming financial year, will that cost be included along with the cost of setting up the scheme?

Kate Forbes: If, as we hope, the scheme were to start in January 2021, the funding that we have put aside in the budget this year would cover the preparation work and also the commencement of the scheme during the next financial year.

John Mason: So it would be a bit more than a full year.

Kate Forbes: Yes.

John Mason: Thank you.

Alex Rowley (Mid Scotland and Fife) (Lab): Who knows what the cost will be, so where did the figure of £15 million come from? Will you publish more information on the workstreams and how the scheme will be taken forward? There are a lot of legitimate questions—my colleague mentioned that someone can have a free bus pass, but it might be the case that no buses come to their area. As you know, that is a serious problem in rural Scotland. As their budgets have been cut, councils have been less able to subsidise bus routes, and bus companies have been pulling more and more bus services, particularly in rural areas. Local authorities have the power to set up public bus companies, but they do not have the resources to do so. Therefore, is there a need to take a more holistic look at bus travel and public transport in general?

A number of councillors have contacted me—I do not know whether they have contacted you—to ask whether there will be changes, because bus travel to and from schools is a big cost for councils and the education sector. Just down the road from me, there are a number of schools and the service buses run right past their doors. What are the implications in terms of the amount of money that it costs local authorities to provide transport for under-18s to get to and from school?

Will you publish information and ensure that local authorities and all the other key stakeholders are involved as the proposal is developed?

Kate Forbes: The short answer is yes. It is worth bearing in mind the comment that was made by Alex Rowley's colleague in the chamber last week during the stage 1 debate, which showed that Labour assumed that rolling out free bus travel to all under-25s would cost about £26 million. We must make sure that we take people with us and that we consult appropriately. I do not

think that we would want to do that in isolation of all the other factors that Alex Rowley has rightly identified.

The first of the three initial workstreams, which will look at policy and legislation, will have to include consultation and engagement with stakeholders; the second will be about carrying out research, gathering evidence and reviewing the options that are currently available around travel concessions and how we extend them; and the third will be around operational implementation, which will include consideration of whether we could potentially adapt the existing Young Scot card-based, non-statutory young people's bus discount scheme.

None of those three streams can be done in isolation from local authorities and the bus companies. There will be extensive consultation and engagement. Ultimately, most of us want to get to the same end point, which is to make it as easy and straightforward as possible for young people to use the bus.

Alex Rowley: What about school transport?

Kate Forbes: What is the question there? Are you asking whether the measure covers school transport?

Alex Rowley: Local authorities have been asking—councillors in Fife raised the question with me again at the weekend—whether, once it becomes free for under-19s to use buses, that will include school transport or whether the local authorities will continue to be expected to pay for school transport separately.

Kate Forbes: We have to explore that with local authorities. The scheme will make a big difference in cases where young people are unable to get school bus transport. The most obvious case, which parents have raised with me over the past week, is when a child does extracurricular activities after school and so cannot get the school bus home. At present, it costs £2 or £3 for them to get the bus, which mounts up.

All those questions will have to be explored with COSLA, and we intend to do so. Certainly, the commitment should be in addition to what is already provided. It is important that we have answers to the questions, which is why we have given ourselves a significant lead-in time before the introduction of the scheme next January.

The Convener: I guess that Patrick Harvie will want to ask some questions on that issue as well.

Patrick Harvie (Glasgow) (Green): I have just one or two. Obviously, there are questions that will be for transport ministers to answer some way down the line, particularly in relation to the argument for a more holistic approach that Alex Rowley rightly set out. The other day, I was getting

off a bus when the driver called me back and said, "When are you going to take us over? We all want to work for the corporation again." There is a lot of appetite for public bus companies, and that case will continue to be made.

George Adam (Paisley) (SNP): Was the driver a 90-year-old? *[Laughter.]*

Patrick Harvie: I did not ask—I am far too polite.

There are two questions that I would like to explore with the cabinet secretary. The first of those questions, which is on measuring the impact, relates to one of Alexander Burnett's questions. Obviously, one area in which the measure can achieve a social and environmental impact is the reduction in the costs of family travel and not just the costs of young people travelling on their own. For example, young people will be able to take the bus rather than their parents giving them a lift, and the scheme will reduce the financial cost of families travelling together. Will there be an attempt to measure the social justice impact as well as the environmental one as the scheme starts to be implemented?

My second question is on how the scheme will work. You mentioned that the Young Scot card is one of the options. Do you agree that it would make sense to develop and implement the system in a way that would be scalable if a future Scottish Government decided to expand the age range or the modes of public transport that were covered? I presume that we would want a scheme that is flexible enough to do that rather than having to design a completely new replacement system if such changes were approved later.

Kate Forbes: The short answer to the second question is yes. As I mentioned, in light of the fact that we have a scheme in place for over-60s, it makes sense not to reinvent the wheel and to look at what works already and whether we can roll it out for the under-19s. We definitely want a scheme that we can work with, particularly in terms of future direction. That is not me giving an indication of what the future direction is, but it makes sense to build a scheme that gets it right the first time so that we do not have to reinvent the wheel every time that we make a policy change in the area.

The first question, which was absolutely brilliant, was about how we measure the policy impact of the changes on more than one portfolio area. We have discussed in the past how we measure the impact of a policy that delivers benefits in multiple areas. I have previously used the example of emissions reductions in travel zones, which impact on health as well as transport. With free bus travel, there are social justice impacts, health impacts—in terms of prevention—and a transport impact. At

the moment, we capture that through the national performance framework, outcome by outcome, and we measure the impact of our policies against those outcomes. The policy can deliver multiple outcomes, not just a single outcome.

10:30

Neil Bibby (West Scotland) (Lab): This week, the *Sunday Mail* reported that Scottish Enterprise staff have been emailed by Steve Dunlop, the chief executive, ordering them to freeze all future support grants and to slash internal budgets. Were you aware that Scottish Enterprise was running out of money when the Scottish Government decided to cut its budget for next year by 9 per cent? Has the Scottish Government considered the economic impact of a reduction in Scottish Enterprise's budget?

Kate Forbes: It is important to say that the comment about Scottish Enterprise running out of money is not accurate.

I have said in the past that we want to ensure that the investment that goes through our enterprise agencies goes into the economy. It is perfectly acceptable for organisations to look at being as efficient as possible to maximise the resources that are ultimately invested in the economy. That is what matters.

In the budget this year, which of course is one of the first years in which we are funding south of Scotland enterprise—with overall investment in the next financial year of around £28 million—it is important to look at the investments that we are making in the economy in the round, through not only Scottish Enterprise but the other investment vehicles.

Neil Bibby: If businesses are not getting the support that they need, it does not appear that the transition to south of Scotland enterprise and the Scottish national investment bank is working. Is it acceptable and prudent for Scotland's leading enterprise agency to freeze its support of businesses in Scotland right now?

Kate Forbes: I am not aware of any freeze in direct support for businesses. Every organisation needs to look at the way in which it operates—I expect every organisation to do that—to ensure that it delivers value for money for the taxpayer and our public services. Whether it is through Scottish Enterprise, Highlands and Islands Enterprise, south of Scotland enterprise or the Scottish national investment bank, the priority is to ensure that the money that we invest goes to businesses, organisations or, in some cases, community groups, as they are the most important factor. We must support the enterprise agencies to do that as well as possible.

Members cannot look at this year's budget in terms of the investment through the Scottish national investment bank or the enterprise agencies and come to any other conclusion than that we are investing in the economy.

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

When you came to this committee three weeks ago to talk about the budget, you assured us that every penny had been accounted for, yet you have now found an extra £173 million. I am glad that you located the missing sofa and that that cash has materialised.

I note that, of the £173 million, £50 million comes on the basis of a reprofiling of non-domestic rates distribution over the next three years. Is it fair to characterise that as you essentially borrowing this year against future income in the years to come?

Kate Forbes: The only issue that I take with that sentence is the word “borrowing”. As Murdo Fraser knows, because I included the relevant table in the letter that I sent to the committee, the non-domestic rates pool does not impact ratepayers or local government funding—that is absolutely clear. It brings forward forecast growth to invest, but that does not in any way disrupt our plans to bring the non-domestic rates pool into balance. That is shown in the table that I provided.

Murdo Fraser: Thank you for providing that helpful clarity.

You will have seen that, in the committee's budget report, we highlighted income tax reconciliations, which will be £204 million for the 2020-21 budget. The projected sum for the following year is £550 million, which is a much larger sum. How prudent is it to start spending future years' income in the coming budget when we know that we will potentially have a much bigger issue to address in a year's time?

Kate Forbes: As I said earlier to the convener, it is a judgment call. In this year's budget, I have not touched the reserve, which remains the same, and I have left £93 million of resource borrowing headroom, as originally planned. That is because we are aware of the volatility and the uncertainties that are coming down the line, which are part of a much bigger question to do with the fiscal framework.

In my initial conversation with the Chief Secretary to the Treasury last week, he raised the point that we needed to discuss and ensure that the fiscal framework is working for both Governments. The current level of volatility in income tax receipts is concerning. Next year, our borrowing powers will not cover the £550 million or so for reconciliation. The UK Government is able to borrow for figures like that and to cover and smooth over them, but we do not have that

capacity. Although I am making prudent decisions now to ensure that we have as much headroom as possible next year, it will still not be sufficient headroom, through the levers that we have, to deal with that level of reconciliation.

Murdo Fraser: Thank you. I would just observe that, although there is limited capacity to borrow, that borrowed money has to be repaid at some point and you are therefore simply storing up additional issues for future years.

I want to return to the non-domestic rates income instruments, which I note for the coming year are £2.749 billion, rising to £3.423 billion in the year 2023-24. That means that, over the next three years, you are expecting non-domestic rates income to increase by £674 million. According to my calculation, that is a 25 per cent increase in non-domestic rates income over the next three years. That seems an astonishing uplift—it is well above the rate of inflation—in business taxation over a three-year period. How do you arrive at those figures?

Kate Forbes: Those figures are based on the most accurate forecasts that we have, led by the evidence. However, Graham Owenson might have more to add to that.

Graham Owenson (Scottish Government): Those are Scottish Fiscal Commission estimates, which are based on consumer prices index inflation. We also need to take into account where we are in the appeals cycle when appeals have been settled. In the earlier years, when we get a lot of appeals, income will be low; in the later years, when appeals have been settled, the income will be higher. It is to do with where we are in the appeals cycle.

Murdo Fraser: I think that I understand that as a technical response. However, given that the Scottish economy is not projected to grow particularly quickly over the next three years, it seems to me that you are expecting to take from Scottish business a 25 per cent increase in taxation, which is bound to have an impact on the competitiveness of Scottish business.

Graham Owenson: The rates that individual businesses will pay will be no higher than the CPI inflation increase each year.

Murdo Fraser: Where does the nearly £700 million growth come from?

Graham Owenson: It involves a range of technical factors, but the main one is where we are in the appeals cycle. In the earlier and middle years, when we are settling appeals, income will be lower; income will be higher in later years, once those appeals have been settled.

Murdo Fraser: Yes, but overall there will be an additional tax burden on Scottish business of nearly £700 million over the next three years.

Kate Forbes: Those were technical answers as to how we arrive at the forecast. Quite separately, in terms of what business will see, next year Scottish business properties will pay a lower headline poundage than those in the rest of the UK and 95 per cent of properties will pay less than they would elsewhere in the UK. We continue to have the most generous rates relief anywhere in the UK. Businesses will therefore see the positive impact of the recent Non-domestic Rates (Scotland) Bill in terms of the changes that have been made to the appeals system; they will also pay a lower headline poundage than anywhere else in the UK. Therefore, I think that we can continue to say that Scotland provides business with the most competitive rates regime of anywhere in the UK.

Murdo Fraser: I have just one more question, convener. There has been some suggestion in the media that the chancellor will announce next week as part of the budget a fundamental review of non-domestic rates for England and Wales. Would the Scottish Government consider doing that?

Kate Forbes: Again, such questions are challenging because they are all what-ifs and we have to pin down our budget now. We are going early with our budget in order to give certainty to ratepayers. We have to think very carefully about making changes, and we do not intend to make such changes to rates and taxation in year. It is important to make that point.

We need to do what is right for businesses in Scotland. Our reliefs scheme, which is the most generous in the UK, our decision to make headline poundage slightly lower than it is in the rest of the UK, and our unique reliefs, such as the business growth accelerator, all show that we adapt our policies to the Scottish business environment. We should not necessarily replicate what is happening south of the border, because, if we did that, we would have to get rid of a lot of our very generous reliefs.

The Convener: A couple of members want to ask supplementaries on reconciliation and reserves and on business rates. Murdo Fraser asked about reconciliation and reserves. Am I correct in saying that John Mason is interested in that area?

John Mason: I do not have a question on non-domestic rates.

The Convener: The issue of reconciliation has been raised, too.

John Mason: I am interested in reserves generally.

The Convener: You can raise that matter now. It all relates to Murdo Fraser's questions.

John Mason: My questions follow on from the convener's excellent speech last week—I do not know who wrote it, but it was very good—about taking a longer-term view on the Scottish budget, whether we should set aside reserves and the tension associated with that. In the cabinet secretary's reply, which we received yesterday, she said that it is a matter of judgment and about finding the balance. I totally agree with that.

I met people from Glasgow City Council on Saturday. I think that councils have a 2 per cent target for reserves. What are your thoughts on that? It is sensible and wise to put money into reserves, but it means that less money is available to spend today. How do we get the balance?

Kate Forbes: I think that we have the right balance in the budget. It is a very important judgment call to make. On one hand, we have to make prudent decisions in order to deal with future volatility, but, on the other hand, any money that is in the reserve is not being invested in our public services at a time when every party in the Parliament is calling for greater investment in different budget lines. This year, we have taken the right decision by leaving £100 million in the reserve. I consciously decided to do that, as part of reaching agreement with another party. Subject to what the UK Government does on its budget day, my view is that we should add to the reserve in order to increase the Government's ability to manage the inherent volatility under the fiscal framework.

John Mason: Have you any thoughts on a figure? Ideally, would you like a target of 2 per cent, which is what councils have?

Kate Forbes: It is very difficult to give a percentage rate, because a lot of things change annually. We will give greater thought to Parliament's comments about what should be held in the reserve as part of the medium-term financial strategy, which will be published later this year. That will provide the longer-term strategic view on how we should manage volatility and reserves.

The Convener: I say to John Mason that I like my compliments without barbs, so he should watch what he is doing when he asks questions in future. *[Laughter.]*

Donald Cameron (Highlands and Islands) (Con): Am I right in thinking that the Government considered non-domestic rates income as an option in last year's budget and that it described its decision as exceptional at that stage? Can we deduce from the fact that the Government is now taking the step for the second year in a row that it is no longer exceptional?

Kate Forbes: This is very much an exceptional budget in exceptional circumstances, and exceptional decisions have to be taken in order to manage not only the volatility of the fiscal framework but the uncertainty that is inherent in going ahead with our budget before the UK Government's budget. That is why we say that we are baking in anticipated consequentials in the budget bill.

What is most important in that regard is our commitment to bring back the non-domestic rates pool; we will be doing that and meeting our target in the coming years, as I identified in my letter to the committee. Graham Owenson might have something to add on the technical questions.

10:45

Parliament would have cause to ask more questions if it meant that the non-domestic rates pool was out of balance for longer. However, our decisions are prudent and we will still see non-domestic rates brought back into balance in the same timescale. It basically spreads the income over several years, rather than just the year in which it was taken. Incidentally, we did not go into negative territory on the non-domestic rates pool last year—we did not have to use that facility last year.

Graham Owenson: That was the clarification that I was going to add. We forecast that the pool would be in deficit of minus £100 million in 2019-20. However, the latest forecast is that it will actually show a small surplus, so we did not use that facility.

Donald Cameron: The first point that I was making is that you specifically described reprofiling as exceptional last year. I am not talking about the budget in general, but the policy of reprofiling, which was described as an exceptional decision.

The second point is that you were plainly aware that it was a source of funds, not only because you mentioned it last year, but because you made provision for £100 million-worth in the draft budget. Is that a fair comment?

Kate Forbes: Parliament has to determine whether it would rather that I used the non-domestic rates pool or made £50 million-worth of cuts to another portfolio line. I do not think that there is an appetite for cuts. As far as Parliament and I am aware, the non-domestic rates pool exists. Our commitment is to ensure that it is in balance by 2022. That remains our position.

The Convener: That was a supplementary question, Donald, so I will come back to you to ask your other questions.

Alexander Burnett: I alert members to my entry in the register of interests, and state that I pay business rates.

Could one of you explain a bit more about the cycle? You have said that there is a rise of £700 million in 2023-24, because of the timing of the cycle. My understanding is that businesses have to pay their rates every year, regardless of whether they appeal. Is that £700 million the difference between successful and rejected appeals or is it something else?

Kate Forbes: I do not mean to be patronising, but it might be helpful if I gave the member a technical explanation of how the pool works. I will clarify the point again: our decisions around the non-domestic rates pool do not have an impact on non-domestic rates payers and they do not have an impact on local government funding. The issue is how the non-domestic rates system works and how we smooth the access of local authorities to the funding.

As you can imagine, the big challenge—this came to light when we were having our discussions on whether to devolve non-domestic rates to local authorities—is whether we should devolve the associated risks. At the moment, the central Scottish Government takes the risk of non-domestic rates. Local authorities have a forecast of non-domestic rates to determine what they can spend next year. If that forecast was not the same as the amount that the local authorities take in—it often is not—the risk would lie with local authorities. We do not take that approach; we use the pooling system to ensure that local authorities have guaranteed funding from year to year. That means that in some years, a surplus will build up and in other years the audited returns are less than the forecast, so it will go into negative balance. Our commitment is to try to smooth the income over a particular period of time. Last year, for example, a surplus built up, so we did not go into negative balance. This year, in order to ensure that we have funding to deliver on our negotiations, we have made the decision to reprofile the non-domestic rates pool.

Alexander Burnett: In the answer that Graham Owenson gave, he talked about the appeals cycle and the difference in appeals. That is what I do not quite understand.

Graham Owenson: When appeals are settled, successful appeals will be backdated to the start of the revaluation cycle. However, they may be settled two, three or even four years down the line. In that case, the four years of successful appeals income will be lost in one year.

Alexander Burnett: My original question was whether that £700 million, less CPI inflation for

rates, is actually the quantum of successful appeals.

Graham Owenson: Appeals are a significant factor. Another significant reason for the spike in apparent income is that empty property relief will be devolved to local government from 2022-23.

The Convener: We will move on to another area. I call George Adam.

George Adam: The Scottish Police Authority's budget will increase by £60 million this year. We all know that the Scottish Government is committed to protecting the police budget in real terms. Does that funding exceed its commitment, and, if it does, by how much?

Kate Forbes: George Adam is right to say that the Scottish Government committed to protecting the SPA revenue budget in real terms over the lifetime of the Parliament.

We estimated that that would result in a £100 million boost to the SPA's revenue budget over that timeframe. Following next year's budget, we have exceeded our £100 million commitment. In addition to our real-terms protection in 2020-21, we are providing a further £25 million in revenue funding to maintain officer numbers. The total policing budget will increase by £60.2 million in 2020-21; that is a 5.1 per cent increase on the 2019-20 budget position.

Alex Rowley: Is there enough money in the Scottish Fire and Rescue Service budget to meet the pay offer that is on the table for fire service personnel?

Kate Forbes: We have ensured that we will protect the SFRS's budget next year, and that sufficient funding will go to front-line staff.

If the member is referring to the on-going campaign and how far that funding will go to meet the pay offer, I will ask my colleague Ash Denham to write to him with the specific details.

Alex Rowley: The point is that the pay offer—as you know, there is a much wider offer on the table—was rejected by staff. However, the chief fire officer suggested that there is now a danger that there is not enough money in the budget to cover the pay offer.

Kate Forbes: It is worth mentioning that the Scottish Government is not a party in the negotiations concerning firefighter pay; that is a matter for the SFRS as the employer. However, we have committed funding, and we continue our commitment to support the modernisation of the SFRS. There is a further uplift of £6.1 million on top of the increased spending power of £5.5 million in 2019-20, and £15.5 million in 2018-19. In total, we have provided £63 million of additional spending capacity for service transformation over

the past three years, so that the SFRS can do more to keep our communities safe. However, I stress that the Scottish Government is not a party in the negotiations about firefighter pay.

Alex Rowley: Moving on, I will speak about a point that Patrick Harvie made, which you welcomed, on the policy impact of budgets. Last year, one of the headline budget announcements was the one-off, one-year £50 million capital spend for town centres. It was a significant investment that was widely welcomed. As the finance secretary, how can you ensure that the money was actually used? As we move on to the next budget and the next, how can the impact of that investment be measured?

Kate Forbes: The simple answer is that, although we provided that capital funding specifically for the regeneration of town centres, because that had been highlighted as an area that needed investment, we committed to giving the money to COSLA—to local authorities, which were enabled and empowered to spend it as they saw fit.

This is part of the big debate about ring fencing. We have significantly reduced ring fencing so that local authorities have autonomy over 91 per cent of their budgets and how they spend them. It is important to allow local authorities to determine how the money is spent. They will be able to make judgment calls in that regard and they are, of course, accountable to their local electorate for how the money is spent.

Although we are keen to ensure that our money is used well and invested wisely, the money is given to COSLA, and it is for local authorities to determine how they spend it.

Alex Rowley: We are talking about a big announcement last year about tackling town centres in Scotland. Fifty million pounds is a lot of money, and I would expect the Government at least to be confident that something has happened as a result. Was the money spent on a one-off? Did it go into street furniture? Did it make a difference to our economy? Where is the policy behind the approach?

Angela Constance talked about tackling poverty and inequality. Fife Council has a £10 million overspend on children and families and a £10 million overspend on health and social care, so the additional £6 million that will come in as a result of the budget deal with the Greens will be used to offset those overspends. Last Thursday, Audit Scotland published “The 2018/19 audit of Fife Integration Joint Board: Report on significant findings”, in which it said that the Fife IJB’s financial future is so unstable that something will have to give.

Where is the overall policy direction of the budget when it comes to health and social care and children and families? It is fine to keep putting money into new areas, but areas into which you have put money previously are overspending and cannot cope. It seems that, each year, there is a budget of initiatives with no strategic overview of where in our country we are trying to make changes.

Kate Forbes: I have two answers to that. First, local authorities are ultimately accountable to their local electorate for how they spend their money, and local councillors need to answer—just as members of the Scottish Parliament who have been elected to serve constituencies or regions must—for how they use the resources with which they have been entrusted. You ask about the Government determining whether local authorities have spent the £50 million on the right kind of regeneration, but that is ultimately a question for local authorities, which are accountable for it.

Secondly, on the direction of travel, as part of the budget process we meet COSLA regularly and COSLA identifies areas of pressure, which are the areas in which we try to support COSLA through increased investment. That is why an additional £100 million is going from the NHS—from the health portfolio—into social care, as you mentioned, to support local authorities and IJBs that are dealing with the pressures of meeting the needs that come with changing demographics and an ageing population.

COSLA also identified inflationary pressures on teachers’ pay, which is why we invested in teachers’ pay. We meet COSLA regularly as part of the budget process. COSLA identifies the pressures and we try to respond through the budget deal.

Alex Rowley: When John Swinney was the finance secretary, he set up the Christie commission on the future delivery of public services. At the time, the whole approach to the budget was going to be policy driven and we were going to look much more at preventative spend, to drive change. Has that approach been ditched?

Kate Forbes: Absolutely not. It is still very much—

Alex Rowley: So where is the joined-up thinking?

Kate Forbes: Preventative spend is absolutely core to our decisions on the budget, and I think that you can see that throughout this year’s budget. We were very clear about our four strategic aims in this year’s budget. On tackling poverty, tackling the climate emergency and investing in the economy, we have core aims, which we are backing up with investment.

The other way of looking at the issue is to consider outcomes. At the end of the day, COSLA, local authorities and the Scottish Government are co-signatories to the national performance framework, which contains a clear set of outcomes on which we want to deliver. The real test of our spending commitments will be how they deliver on those outcomes, which we share with local authorities.

I do not think that we are doing any of this work in isolation. We must look at the ways in which investing in one portfolio area is delivering results and benefit in another portfolio area.

11:00

Alex Rowley: With the greatest respect, finance secretary, how are those objectives going? How are they being met? You seem to be just passing the buck to local authorities and saying that councillors should be accountable.

Kate Forbes: You asked me whether I feel that the regeneration fund of £50 million has been spent wisely. That is totally at odds with what Labour regularly criticises me on, which is ring fencing and disempowering local authorities in how they spend.

My point is that we invest in those funding pots but it is for local authorities to determine how that money is spent. You would probably be the first to criticise me if I was too rigid in saying how local authorities should spend it. Ultimately, we are accountable to the electorate for the spending decisions that we make. Local authorities are accountable, as am I, and as is each of us. The national performance framework, which all of us are signed up to, is the way that we measure progress against outcomes, and our strategic aims in the budget determine what we prioritise in this year's spending.

Tom Arthur (Renfrewshire South) (SNP): As a consequence of the deal that was negotiated ahead of the budget, East Renfrewshire Council will receive an additional £1.8 million and Renfrewshire Council an additional £3.1 million. Both of those areas lie within my constituency. That money is part of an overall uplift of £95 million. Will you share with the committee what the total allocation to local government now is, contextualise that within the overall Scottish budget and compare it with local government spending in England?

Kate Forbes: The total increase in resource funding for local government is £589.4 million, which is a real-terms increase of 3.9 per cent. That means that next year's budget delivers the highest annual resource budget increase—in terms of budget to budget, at £509.4 million—for local government since this Administration came into

power, in 2007. If capital funding is included, the overall funding increase is £238.3 million, which is a real-terms increase of 0.7 per cent.

I often think that the comparison is best captured by what the finance spokesperson for COSLA said, which is that, compared with England and Wales, where local authorities are “collapsing”, in Scotland we are doing things quite differently.

Tom Arthur: I appreciate that you are new to your role, cabinet secretary, but I am interested in your reflections on the budget process. We face significant strategic challenges in the coming decade, particularly with respect to demographics and increased health spending. What are your reflections so far on the parliamentary process and the way that we, collectively as a Parliament, go about the budget-setting process?

Kate Forbes: We need to be realistic about where the challenges are. I do not want to keep going back to the fiscal framework, but the review of it needs to be brought forward. Not having done that review means that we are unable to deal with volatility as well as we could.

That might sound technical and boring—like something that is of interest only to the finance committee and me—but it is about what money and funding we have to invest in our public services, and that is of interest to everybody in the country. The fiscal framework needs to be looked at to ensure that it is not hamstringing our ability to respond to the challenges that we face.

On the budget process, the budget delivers record investment in our health service, raising it to £15 billion. We are committed to passing on all the consequentialities that come to us for health to the health service, in order to protect it.

Quite rightly, questions are often raised about how we ensure that we are taking a preventative approach. An obvious example is the way in which, this year, funding from the health service has moved into social care. Ensuring that we provide adequate social care might reduce cost pressures in areas of the health service.

The Convener: There are two other areas that people want to ask questions on. Donald Cameron has a question on consequentialities.

Donald Cameron: During the stage 1 debate, last week, you repeatedly said that there was a lack of clarity around consequentialities. Do you accept that, despite those statements and that professed uncertainty, your draft budget used consequentialities that were, as the convener mentioned earlier, £468 million more than the Treasury's forecast of more than £1.1 billion, as per the spending round last September?

Kate Forbes: We accept that £1.1 billion of additional resource budget was allocated at the UK spending round, to which we have added £142 million of anticipated additional consequentials from the forthcoming UK budget. That is part of the overall £468 million, because the remainder is capital.

I have repeatedly made the point that, in seeking guarantees about that funding, officials in the Treasury have consistently referred to the Conservative Party manifesto from December. Therefore, we have based our decisions on the best available evidence. To have waited until that funding was guaranteed, after our budget was complete, would have introduced even greater challenges to the process. The question, really, will be whether the UK Government delivers on the commitments that it made at the election in December.

Donald Cameron: Your funding for the majority of last week's agreement comes from consequentials. I have come to that conclusion by subtracting £25 million underspend and £50 million of reprofiling from a total of £173 million, which comes to £98 million. Is it correct to say that that money comes from consequentials?

Kate Forbes: It is not quite correct, because of the fossil fuel levy. It might be worth having a technical answer on that. I would not characterise the fossil fuel levy money as part of the consequentials, because it should come to us anyway.

Donald Cameron: It is my understanding that the fossil fuel levy money is, in fact, a type of consequential.

Andrew Watson (Scottish Government): It is slightly different from the annual consequentials that we receive as a result of UK fiscal events. The money is a surplus that directly accrues to the Scottish Government and the Scottish block rather than being a consequence of movement in UK spending that generates Barnett consequentials in comparable programmes.

Donald Cameron: I do not want to split hairs; it is just that, in the answer that you gave to a question from Murdo Fraser last week, the money was described as additional consequentials.

Do you agree that it is hypocritical to complain about uncertainty around consequentials, as you did last week, while, at the same time, using close to £100 million of additional consequentials to reach an agreement?

Kate Forbes: The point about whether the fossil fuel levy represents a consequential is quite important, because it is confirmed in a different way. As I understand it, your point is that it is hypocritical to use consequentials in advance of

knowing what our guaranteed funding is. That is the irony of this entire process. We are going ahead of the UK Government because we are trying to provide certainty to ratepayers and the public services. If we had waited until after the UK Government's budget, in order to get guaranteed certainty, the implications for taxpayers do not bear thinking about.

I accept that there is increased uncertainty around our decision to come forward. However, the UK Government was perfectly able to guarantee our funding, if it had wanted to, in the past few weeks. All that it has done is refer us to the Conservative Party manifesto; therefore, we have based our budget on the best available evidence. Is it as watertight as confirmation of block grant adjustments after the UK Government's budget? No, but there are all sorts of uncertainties that are part of our annual budget process. For example, with regard to last year's budget, only a matter of weeks ago, the UK Government clawed back capital consequentials late in the year because there had been an underspend associated with policy decisions south of the border. There will always be uncertainty.

Donald Cameron: My point is that it is hypocritical to complain about uncertainty around consequentials after you have used £100 million of additional consequentials to reach a deal.

Kate Forbes: My question to Donald Cameron is this: if the Conservatives fail to deliver on the promises that they made to the electorate in the December election and we therefore see a cut from the UK Government, whose fault is that?

Donald Cameron: I am not here to give evidence, cabinet secretary—you are.

On the specific consequentials that you referred to, I think that you said that some of the money came from local government funding in England. Is that right?

Kate Forbes: It came from policy changes to do with non-domestic rates. In advance of the UK budget, no UK Government minister is giving us any information on what the UK Government intends to do with its budget, despite our repeatedly asking. The UK Government indicated to local government that it is going to make some changes around non-domestic rates, which is where we got our information from.

Donald Cameron: So it is not about additional funding from the UK Government going to local authorities in England.

Kate Forbes: No, it is about changes that the UK Government is making to non-domestic rates, which it had to indicate to local authorities in England and Wales. It is worth bearing in mind

that those local authorities are facing the same levels of uncertainty as we face.

Donald Cameron: In my final question, I want to try to analyse the issue of the fossil fuel levy. I am advised that there was no mention of that in the draft budget. Can you be a bit more specific about the role of Ofgem in the matter?

Kate Forbes: Ofgem contacted us on 18 February with new information, which has informed our current position. The issue with the fossil fuel levy is largely to do with how to apportion the surplus in the fossil fuel account. That money has always been there—it is our money—and Ofgem contacted us about how to apportion the surplus.

John Mason: I realise that European Union funding is not part of our budget, but the committee referred to it in a fair amount of detail in our report, and you responded to that report. Have you had an indication from the UK Government as to whether—and, if so, how and when—it will replace EU funding such as structural funds and common agricultural policy funding?

Kate Forbes: We share the committee's concerns regarding the uncertainty that is associated with that EU funding and the serious consequences that there will be from its loss. The Conservative Party committed to replacing certain funding streams as part of its election manifesto, but, on that issue as on everything else, we await further detail on the exact amounts, how those funds will operate and when they will be provided. We will continue to push for clarity to ensure that there is no cliff edge from December 2020 onwards. However, on that and on everything else, we await confirmation on 11 March, in the hope that it will come then. If it does not, we will be waiting for the spending review.

The Convener: That was a lengthy evidence session, but it was useful for information sharing. We should have a wee break, so I will suspend the meeting for five minutes, after which we will begin the formal process on the Budget (Scotland) (No 4) Bill at stage 2.

11:13

Meeting suspended.

11:18

On resuming—

The Convener: We begin the formal proceedings at stage 2 of the Budget (Scotland) (No 4) Bill.

Section 1—The Scottish Administration

Section 1 agreed to.

Schedule 1—The Scottish Administration

The Convener: Amendment 1, in the name of the cabinet secretary, is grouped with amendments 6, 7, 19 and 20.

Kate Forbes: Amendments 1, 6 and 7 will increase three portfolio totals in schedule 1, in accordance with the budget agreement with the Scottish Green Party. Amendment 1 will increase the communities and local government authorisation by £95 million. Amendment 6 will increase the justice authorisation by £18 million, to deliver on the commitment to increase police resources, with £13 million of resource and £5 million of capital.

Amendment 7 will increase the transport, infrastructure and connectivity authorisation, to deliver on the commitment to provide an additional £60 million, which will be £15 million of resource towards the preparations to introduce free bus travel for young people aged 18 years and under and £45 million capital for net zero projects, including £15 million for local government.

Amendment 19 will update the total amount of resources in schedule 1, and amendment 20 will increase the total cash authorisation for the Scottish Government.

I move amendment 1.

Amendment 1 agreed to.

The Convener: Amendment 2, in the name of the cabinet secretary, is grouped with amendments 3 to 5 and 8 to 18.

Kate Forbes: These technical amendments will update schedule 1 to reflect the revised ministerial portfolios. Amendments 2 to 5 reflect the formation of the finance portfolio. Amendments 8 to 10 reflect the formation of the rural economy and tourism portfolio. Amendments 11 to 15 reflect the formation of the economy, fair work and culture portfolio. Amendments 16 to 18 reflect the formation of the constitution, Europe and external affairs portfolio.

I move amendment 2.

Amendment 2 agreed to.

Amendments 3 to 19 moved—[Kate Forbes]—and agreed to.

Schedule 1, as amended, agreed to.

Sections 2 and 3 agreed to.

Schedules 2 and 3 agreed to.

Section 4—Overall cash authorisations

Amendment 20 moved—[Kate Forbes]—and agreed to.

Section 4, as amended, agreed to.

Sections 5 to 11 agreed to.

Meeting closed at 11:22.

Long title agreed to.

The Convener: That ends stage 2
consideration of the bill. Thank you, everyone.

This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

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