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Official Report

FINANCE COMMITTEE

Tuesday 1 February 2011

Session 3

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FINANCE COMMITTEE
5th Meeting 2011, Session 3

CONVENER

*Andrew Welsh (Angus) (SNP)

DEPUTY CONVENER

*Tom McCabe (Hamilton South) (Lab)

COMMITTEE MEMBERS

*Derek Brownlee (South of Scotland) (Con)
*Malcolm Chisholm (Edinburgh North and Leith) (Lab)
*Linda Fabiani (Central Scotland) (SNP)
*Joe FitzPatrick (Dundee West) (SNP)
Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD)
*David Whitton (Strathkelvin and Bearsden) (Lab)

COMMITTEE SUBSTITUTES

Gavin Brown (Lothians) (Con)
Lewis Macdonald (Aberdeen Central) (Lab)
Stewart Maxwell (West of Scotland) (SNP)
Liam McArthur (Orkney) (LD)

*attended

THE FOLLOWING ALSO ATTENDED:

John Swinney (Cabinet Secretary for Finance and Sustainable Growth)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

Committee Room 4

Scottish Parliament

Finance Committee

Tuesday 1 February 2011

[The Convener *opened the meeting at 14:02*]

Budget (Scotland) (No 5) Bill: Stage 2

The Convener (Andrew Welsh): Good afternoon, and welcome to the fifth meeting of the Finance Committee in 2011 in the third session of the Scottish Parliament. The only item on today's agenda is consideration of the Budget (Scotland) (No 5) Bill at stage 2.

I draw members' attention to two procedural points in the note from the clerk that members will have among their papers. First, only a member of the Scottish Government may lodge an amendment to the bill; and, secondly, as stated in paragraph 5 of the note, it is not possible to leave out a section or schedule by disagreeing to it, because for that to happen, an amendment would have to have been lodged.

Before we start our formal proceedings, I thought that it would be useful if I allowed the cabinet secretary to make some explanatory remarks about the bill and gave members the opportunity to ask questions.

The Cabinet Secretary for Finance and Sustainable Growth (John Swinney): Thank you, convener. I am joined today by Alyson Stafford, director general finance, and by John Williams from the finance directorate.

I begin by acknowledging the work of the Finance Committee during this year's budget process, as reflected in the report that was discussed by Parliament last week. I continue to give careful consideration to the points and recommendations made by the committee and I will send my formal response to the convener in due course.

As you said, convener, this meeting of the committee focuses on the content of the Budget (Scotland) (No 5) Bill as approved in principle by the Parliament last week. As members of the committee are aware, there are, in the presentation of budget information, a number of differences between the draft budget and the bill. However, there are no changes at this stage to the spending plans that were outlined in the draft budget. To assist the committee, I will explain the main differences with reference to table 1.2 on page 3 of the supporting document for the bill. Column A sets out by portfolio the 2011-12 budget as shown in table 5.01 of the draft budget document that was published in November. Column H in table 1.2 sets out the draft budget as it needs to be restated for the purposes of the budget bill; and columns B to G provide the details of the adjustments that were necessary to meet the statutory requirements of the parliamentary process.

The major adjustments exclude £65.2 million of non-departmental public body non-cash costs, which do not require parliamentary approval. Those costs relate mainly to charges for depreciation and impairments, and the NDPBs include bodies such as the national institutions, Scottish Enterprise and Scottish Natural Heritage. Also excluded are judicial salaries and Scottish Water loan repayments to the national loans fund and the Public Works Loan Board, which also do not require parliamentary approval.

There are also international financial reporting standards adjustments of a little under £300 million, which have been agreed with Her Majesty's Treasury, to reflect the adoption of IFRS across central Government from 1 April 2009. Again, I remind the committee that the conversion to IFRS is spending power neutral and simply reflects differences between the way in which Her Majesty's Treasury budgets for such items and the way in which we are required to account for them.

There have been adjustments to portfolio budgets to reflect the requirement that a number of directly funded and external bodies, including the National Archives of Scotland, the Forestry Commission, teachers and national health service pensions and the Food Standards Agency, require separate parliamentary approval.

Finally, there is a restatement of specific grants included in the overall 2011-12 local authority settlement that remain under the control of the appropriate cabinet secretary with responsibility for these policies. The police grant, for example, remains the responsibility of the Cabinet Secretary for Justice. Full details of all grants that have been treated in this way are included in the summary table on page 71 of the supporting document.

I again make clear that the adjustments are essentially technical and do not change in any way the budget that has been scrutinised by this and other committees and approved in principle by the Parliament.

As I made clear to Parliament last week, I remain committed to working constructively with all parties in Parliament during the 2011-12 budget process and will work to continue to seek consensus on a budget that will meet the needs of the people in Scotland during the challenging financial times that we all face. That priority will be the focus of my discussions over the next week.

I hope that members have found my remarks helpful. I am happy to answer their questions.

The Convener: I thank the cabinet secretary for that statement and invite questions from members.

David Whitton (Strathkelvin and Bearsden) (Lab): Cabinet secretary, you said that you do not propose to change your spending plans at this moment. I take it that that means that you are not reconsidering your proposal to introduce a large retail levy.

John Swinney: I intend to bring those proposals to Parliament, subject to the Parliamentary Bureau's timetabling.

David Whitton: How do you respond to comments in the committee report—and, indeed, in reports from other committees—that the budget does not help to sustain economic growth? Despite that criticism, you are still saying that you do not foresee any change to your spending plans.

John Swinney: I said that I do not foresee any change to my spending plans today, but I also said that I was committed to having a constructive dialogue with all parties to try to reach an agreement by stage 3. That has been and remains my position. All I can do is reiterate to Mr Whitton the remark that I made to Parliament last Wednesday and have just made again to the committee, which is that I intend to work to secure agreement on the budget proposals.

With regard to Mr Whitton's question about the budget's implications for economic growth and economic recovery, I have seen and am actively considering the committee's comments on the issue. However, I point the committee to chapter 2 of the draft budget document that was published in November, which contains a pretty extensive explanation of the relationship between our budget choices and the focus on economic recovery and the Government's economic priorities. As I have said, I am considering the committee's recommendation, but I am doing so in the context of what is a fairly extensive explanation of how the Government's approach to spending is enhancing economic development in Scotland. If I consider that I need to add anything to that narrative, I will be only too happy to do so, but I repeat that there is already a pretty comprehensive explanation of the relationship between spending choices and the focus on the economy.

David Whitton: Page 22—which is indeed in chapter 2—of the budget document says:

"Over the last three years we have ... protected household incomes through freezing council tax".

I draw your attention to the remarks of the committee's budget adviser, Professor David Bell, who takes the view that the council tax freeze does not support economic growth and, in fact, that

"its fairness implications are ... not clear cut".

What is your reaction to that?

John Swinney: I note with interest Professor Bell's views, but we should bear in mind the views of members of the public, who are benefiting from the council tax freeze and have certainly made it clear to me that they welcome the fact that the tax has been frozen since this Government came to office and appreciate the respite that it has given them as they wrestle with other challenges in their household income such as increases in fuel prices or in VAT. I also note—and am delighted to welcome—the committee's own welcome for the freeze, even though I am not sure that it commanded the support of everyone around the table.

David Whitton: As you well know, it was not the position of everyone in the Finance Committee.

John Swinney: I had an idea that that was the case.

David Whitton: In fact, it says at the bottom of the particular page in the committee report that there was a division. However, Mr FitzPatrick managed to win the day. I am sure that he got some brownie points from you for that.

Linda Fabiani (Central Scotland) (SNP): Oh, you are so nasty.

David Whitton: I thought that you were not able to speak.

Notwithstanding what you have laid out in chapter 2, cabinet secretary, the budget has been scrutinised by this and the Parliament's other committees and I think that it is fair to say that the general view is that it does not sustain economic growth. I find it surprising that, in light of that criticism, you have not made any changes at all.

John Swinney: At the risk of repeating myself, I say that I have already told the committee that, although I do not intend to bring forward proposals today, I might well bring forward proposals by stage 3 as a product of my discussions with other political parties. I have set out to members my view that, in its budget document, the Government has explained in considerable detail the relationship between our spending choices and our priority of economic recovery. For example, the chapter in question contains a message about how we have enhanced capital expenditure at a time when capital spending is being reduced by about 25 per cent in one financial year and by just short of 40 per cent over four years. In recognition of the significance of such spending for economic development, we have taken action to counter that cut and sustain capital investment.

In the draft budget document, we set out the implications of our investment in skills and training, including our capability to fund 34,500 training places to support young people and others in entering the labour market; our commitment to the small business bonus scheme, which is removing the rates burden for 63,000 businesses in Scotland and reducing it for a further 11,000; and our aspirations for the low-carbon economy and the fact that our investment in, for example, modern apprenticeships will create the conditions in which we will be able to invest in skills and training for new industries such as the renewables industry. I could keep the committee here all afternoon giving further examples of how our budget choices are supporting economic growth. However, I have made it clear that, if needs be, I am prepared to do more to achieve consensus in Parliament.

There is a "but" here, however. If other parties want me to spend more money on areas that support economic recovery, they have to tell me where the money will come from in what is a balanced budget. There are no other pots of gold around; this is the budget that we have to deal with. To return to Mr Whitton's first question, I simply make it clear that, if we do not support the supermarket levy, we will be down £30 million before we start any of these discussions and before we try to find other resources that will enhance economic activity. I am very happy to engage in such discussions, but there must be some acknowledgement across the political spectrum that that is the genuine issue that must be discussed over the next eight days. As I have said, I am absolutely willing to take part in those discussions and will give all the time, energy and effort that I can to ensuring that we reach an agreement, but those are the terms in which any discussion will have to be framed. I do not think that it is unreasonable for me to insist on that.

David Whitton: Have you considered any alternative to ring fencing the health budget to allow a broader definition of health spending?

14:15

John Swinney: Either we pass on the Barnett consequentials to health or we do not—it is a black-and-white issue. In that regard, we have done what we said we would do. We have made provision in the budget for the establishment of a £70 million change fund, which is designed to do exactly what it says on the tin: change the way in which we deliver social care services in order to improve the outcomes for affected individuals. This is ground that Administrations have been on for some time. We are determined to put in place resources to drive the process of change to enable us to create new models of operation that will meet the greater demand for services that is already with us and which will be even greater in the years to come. That is an acknowledgement of the close degree of working that needs to be created between the health service and social care providers, whether in local authorities or in the third sector, where there is a wide range of provision.

David Whitton: I am grateful to the cabinet secretary. I hope, though, that we will get your considered reply to our report in good time so that we can read it before the stage 3 debate.

John Swinney: Well, we will see about that. I hear Mr Whitton's comment and I understand why the committee would have that aspiration. I will do what I can to address that.

David Whitton: Thank you.

Joe FitzPatrick (Dundee West) (SNP): On the Scottish Government's support for jobs and industry, can the cabinet secretary tell us about the impact of the United Kingdom Government's cuts to the capital budget and how that has impacted on the Scottish Government's flexibility? Further, what difference is there between the current UK Government's cuts to the Scottish Government and those that the previous Labour Administration proposed?

John Swinney: On the last point, it is clear from the record of Parliament last Wednesday that the Conservative and Liberal Democrat Government has taken the same approach to capital expenditure, with the same control of totals, as the previous Government. There has been no change to the reductions in capital spending since the change of Government last May.

On the scale of the reductions, our capital budget is reducing by 25 per cent in one financial year and by 38 per cent over the spending review period. The capital budget is reducing from £3.293 billion in 2010-11 to £2.506 billion, which is about an £800 million reduction that will have a significantly constraining effect on capital expenditure. The Government has decided to supplement the traditional capital budget with a programme of NPD—non-profit-distributing—investment that will be structured over the next six years and will counter some of the effects of the reduction. However, we should be in no doubt that it is a significant reduction in capital spending.

As we saw from the capital acceleration programme that the Government undertook in 2008-09 and 2009-10, there is a beneficial effect from capital expenditure going into the economy. One of the issues with which we must wrestle is the fact that the economy requires capital investment not just from the public sector but from the private sector to stimulate growth. Clearly, at a time when we might have hoped that private investment would have reached a higher level than it has and there is still a lot of anxiety about levels of private capital investment in the economy, public expenditure performs a significant role in the process.

Derek Brownlee (South of Scotland) (Con): It is perhaps unfair to take advantage of the absence of the Liberal Democrats, who cannot therefore defend their spending decisions. However, more substantively, the draft budget refers to the Scottish Water figure of £700 million over the determination period, but the indicative figures that you published last week suggest that no additional capital will go to Scottish Water over the remainder of the spending review period. Where will the £560 million to which the draft budget refers come from if your indicative figure shows zero?

John Swinney: The indicative budget shows a capital line for finance and sustainable growth of £957 million in 2012-13, £843 million in 2013-14 and £1.034 billion in 2014-15, and the Scottish Water investment will be contained in that line.

Derek Brownlee: But the indicative figures that you produced last week had a breakdown that—I think—showed a receipt for Scottish Water of only £88 million or £89 million per year and did not show any capital supply to Scottish Water.

John Swinney: That is because we did not show capital at level 2; we showed it at level 1 for all portfolios. I explained to the convener in the letter that I sent him last Monday that we had decided to show capital only at level 1 because, within portfolios over a four-year period, there is quite a change in the pattern of capital expenditure from budget line to budget line. We thought that it would be more valuable to show capital at portfolio level. We complemented that by showing indicative numbers in tables 2 and 3 on the implications of the combination of traditional capital and NPD capital investment to give a complete capital picture. For example, as I just cited to Mr FitzPatrick, the capital budget in 2010-11 was £3.293 billion; in 2011-12, with the addition of the NPD programme, it will be £2.7 billion; and, by 2013-14, it will be up to £3.1 billion. The committee will begin to see a pattern from the impact of the NPD investment.

Derek Brownlee: The Government is still committed to funding an additional capital contribution to Scottish Water of at least another £560 million over the period to 2015.

John Swinney: That is correct.

The Convener: That ends questions from members, and we turn to the formal proceedings on the bill. We have no amendments to deal with but, under standing orders, we are obliged to consider each section and schedule and the long title and agree to each formally. We will take the sections in order, with schedules being taken immediately after the section that introduces them, and we will take the long title last. Fortunately, standing orders allow us to put a single question where groups of sections or schedules are to be considered consecutively. Unless members disagree, I propose to do that.

Section 1 agreed to.

Schedule 1 agreed to.

Section 2 agreed to.

Schedule 2 agreed to.

Sections 3 to 5 agreed to.

Schedule 3 agreed to.

Sections 6 to 10 agreed to.

Long title agreed to.

The Convener: That ends stage 2 consideration of the bill. I thank the cabinet secretary and committee members for their presence and contributions.

Meeting closed at 14:23.

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