



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

FINANCE COMMITTEE

Monday 1 December 2014

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FINANCE COMMITTEE

31st Meeting 2014, Session 4

CONVENER

*Kenneth Gibson (Cunninghame North) (SNP)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

*Gavin Brown (Lothian) (Con)

*Malcolm Chisholm (Edinburgh Northern and Leith) (Lab)

Mark McDonald (Aberdeen Donside) (SNP)

*Michael McMahon (Uddingston and Bellshill) (Lab)

*Jean Urquhart (Highlands and Islands) (Ind)

*attended

THE FOLLOWING ALSO PARTICIPATED:

John Swinney (Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

Arran High School, Lamlash, Isle of Arran

Scottish Parliament

Finance Committee

Monday 1 December 2014

[The Convener opened the meeting at 11:49]

Draft Budget Scrutiny 2015-16

The Convener (Kenneth Gibson): Good morning and welcome to the 31st meeting in 2014 of the Finance Committee of the Scottish Parliament. We are delighted to be here in Arran, and I thank Mr Smith and everyone else at Arran high school for hosting today's meeting and for their help in making the day go smoothly.

We have received apologies from committee member Mark McDonald MSP. I remind everyone present to turn off any mobile phones or other electronic devices.

The purpose of today's meeting is to continue the committee's examination of the Scottish Government's draft budget 2015-16. Our workshop sessions this morning sought to explore the impact of the Government's spending decisions on the communities of Arran. In particular, we wanted to explore how the draft budget relates to investing for sustainable growth, supporting business internationalisation and innovation, job creation and improving the quality of employment opportunities. The first item on our agenda is therefore to report back on those discussions, and I ask the deputy convener, John Mason, to report back from his group.

John Mason (Glasgow Shettleston) (SNP): One of the issues that came up in our group was that there is no point in asking people to switch off their phones, because there is no signal.

The Convener: Yes, but we have to go through the committee procedures.

John Mason: It is a question of infrastructure. We spent a bit of time talking about that and about the fact that broadband cables are in the process of going in, so there are movements to improve the communications infrastructure and there could be three new masts going on to the island at some stage.

Before that, we spent quite a bit of time talking about the road equivalent tariff, for which there is general enthusiasm. However, our discussions highlighted problems such as limited ferry capacity and problems with the pier, both of which are likely to be addressed, although there are questions about how many more cars and how much more freight can go on to the ferries. The fact that RET

is only for individuals, whereas originally in the Western Isles it included freight traffic as well, was mentioned. That means that the cost of goods such as petrol on the island will not be assisted by RET.

Our discussion on tourism was generally positive. We talked about the population of the island getting older and about the increased opportunities that make it possible to commute from Arran to other places, partly because of RET and better ferry times. We talked about the roads, although the feeling was that roads are not the top priority and that the ferries and the harbour are a higher priority. We also talked about different ways in which funding comes into the roads, through forestry and other schemes.

On energy, we discussed the potential for hydro and the considerable problems around grid capacity and importing and exporting electricity to and from the island.

In the third section of the workshop discussion, we talked about education and training, modern apprenticeships and further education, and the link between modern apprenticeships and the new school's curriculum for excellence. As we have heard in other parts of Scotland, the situation for small businesses is complex, because there seem to be so many different organisations to deal with. It is particularly hard in Arran, because some of the links are more with the Highlands and Argyll and Bute and some are more with Ayrshire, at local authority level. That seems to make things more complex than they are in other places.

There was quite a lot of enthusiasm for the idea of community empowerment and for the fact that the islands have been quite high on the agenda in recent months. There is now a Minister for Transport and Islands, Derek MacKay, who it is hoped will come here to hear about Arran's issues. I am convinced that the issues here are slightly different from those of some other islands, although we heard from Highlands and Islands Enterprise that every island is different and has its own unique challenges.

Transport for young people is an issue. If they are at university or college elsewhere, it is hard and expensive to get back. There is a skills problem, too. We talked about jobs to which it is difficult to attract people. For example, here in the school there are shortages of teachers for some subjects; it is also hard to recruit doctors.

The levels of both employment and unemployment are low in Arran, partly because of the elderly population. If people are unemployed they tend to leave the island, whereas in the cities they might stay put and wait for a job. That could be a disadvantage in the long term.

We talked about housing, which is also an issue. People in lower-paid work cannot afford to buy housing—some of the prices sounded quite high to me. The average price is £200,000 and it can cost £80,000 just for the land. There is certainly a need for more social rented housing.

We talked about childcare, which appears to have been easier to get in the past. More housing has been built, which has put pressure on the provision of childcare.

We were running out of time, so on the second bit we talked a little about the growth areas, such as food and drink and tourism. Arran is trying to position itself at the top end as an international destination for both conferences and tourists, which ties in with the direction that the Scottish Government and the Scottish Parliament want Scotland to go in. Scotland should be at the top end of the market for tourism, food and that sort of thing.

We touched briefly on business rates.

Finally, we talked about marine tourism and the opportunity, if there were more facilities, to bring more yachts here, which other places would benefit from.

That is a summary of what we discussed.

The Convener: Thank you, John. Malcolm Chisholm is next.

Malcolm Chisholm (Edinburgh Northern and Leith) (Lab): We had an interesting group discussion that was very positive in many ways. It started with the positive developments that we are seeing in Arran, and a general theme was that those need to be built on.

We were told that RET is viewed positively by the vast majority of people on the island and that the issue is how to make most use of it. Equally, people were positive about the harbour development at Brodick, but we were told that it, too, needed to be developed, particularly in the direction of having a marina and more facility for small boats to come to Arran. There are lots of small—in the scale of things—boats in the Clyde that cannot come to Arran at present, and people feel that there is a need to build on the harbour development. That is one of two areas in which people feel that HIE could be of assistance, through the development of a marina. I will speak about the other area in a moment.

We were told that a marine protection area has recently been established south of Arran, which encompasses at least half the coastline on the southern, eastern and western parts of the island. Again, the theme was about how we can develop that and how it can be built on in terms of both enforcement of the protection area and possible developments arising from it. There was talk of a

marine interpretation centre, which could be useful for both education and ecotourism. The general theme was that the MPA is a positive development that needs to be built on.

The other positive development that was mentioned near the beginning of our discussion was the broadband upgrade that is coming in 2016-17. However, as in the previous group, the problem with mobile phones was raised. That is obviously a big barrier for lots of activities and certainly for business development.

As we would expect, tourism was highlighted as a major source of employment on the island in one way or another. One of the themes was that the public sector should focus on tourism to the same extent as the private sector. It was suggested that the local authority should have a focus on tourism on the island and that there should be a designated officer heading up that work on the island.

We heard a lot about small businesses, which are essential to the economy of Arran. A section of our suggested questions was about exports, but the general theme was that exports are not an enormous source of income for small businesses. The important thing is that small businesses are working together when it comes to export markets. More central to our discussion on small businesses was the need for more small units to develop start-up businesses. That is the second area in which it was suggested that HIE could be of assistance. There was also a general feeling that, although good start-up support is provided through the business gateway, there is a lack of on-going support. An interesting suggestion was that there could be a small business apprenticeship. People are positive about apprenticeships and the number of them, and that would be a different way of viewing apprenticeships. That was an interesting suggestion that I had not heard before.

Childcare came up in our group discussion as a barrier to employment and a big issue on the island. There are no community nurseries, so people are reliant on a limited number of childminders. There are no easy answers to that situation, but it was flagged up as a problem. The expansion in the number of free nursery hours will help, but it will not solve all the problems.

The need for affordable housing came up in relation to employment, among other things. We were reminded that 96 affordable homes had been built recently, but that has not solved all the housing challenges, because buying houses on the island is expensive. Apart from the supply issue, the affordability issue means that houses are beyond the reach of many people who work on the island.

12:00

That relates to social care, which was the next issue. There was general praise for the medical services on the island, but social care was an area of concern. A lot of that concern was to do with the lack of personnel, particularly for home care. I believe that a new nursing home is being opened, but there is a lack of personnel for social care. Again, that relates, at least to some extent, to the housing issue.

The last issue that was mentioned concerned the generation of electricity. The general comment was made that there is scope for a lot more self-generated electricity.

The Convener: Thank you very much. Would Jean Urquhart like to add anything to Malcolm Chisholm's comments?

Jean Urquhart (Highlands and Islands) (Ind): I thank the four members of the community who came and discussed matters. We had a very good discussion, and I thank my colleague for reporting it so well.

The message that I take from everything is that housing is economic development and that Highlands and Islands Enterprise needs to have more of a presence here. I understand that it is coming tomorrow—at least, there will be a meeting tomorrow. It seems to me that HIE is pretty important in rural and island communities generally, and it possibly needs to have more of an input here. I would be quite interested to find out what kind of investments it has made and about its involvement.

The new apprenticeship idea was really good. We talk a lot about entrepreneurialism; John Swinney in particular talks about it. We discussed whether people can train for that or learn it, but, with small businesses, it is possible that we could see a growth in entrepreneurs. That will be hard to do and to define, and it will be hard to do a tick-box exercise about the skills that have been learned, but if we could make the approach work, small businesses could become better engaged through offering apprenticeships and potentially keeping younger people here.

The Convener: Thank you. I should, of course, point out that Douglas Cowan of Highland and Islands Enterprise is here and is part of John Mason's group. You might want to have a wee chat with him over lunch.

Michael McMahon (Uddingston and Bellshill) (Lab): I will start by making a comment that came up as a theme that ran all the way through our discussion. Lots of people are trying to do the right thing, but it is being done in silos and things are not connected. When we talked about specific issues, we kept on coming back to the idea that

better progress might be made if someone was responsible for pulling everything together. I will finish with the suggestion that came out of that.

John Mason and Malcolm Chisholm have already commented on the issues that came up. It is clear that the broadband connectivity issue is a barrier to the growth potential of small businesses. It also has knock-on effects on the delivery of health services and other services that require good connectivity.

There was recognition of many things that are good but which have issues around them. Public transport was considered to be reasonably good and the amount that Strathclyde partnership for transport puts into supporting it was recognised, but it seems to be geared towards getting young people to school rather than getting people to work. Cognisance needs to be taken of the fact that the services that exist do not necessarily serve the community in the best way, although what exists is regarded as being quite good.

Land management came up. The tick-box management style of the agencies that people have to work with is a frustration. I certainly picked up a sense of frustration. People have wanted to maintain and make good use of the land, but have been hamstrung a bit by management from agencies that wanted things to be done in a particular way that did not necessarily serve the island particularly well, especially when it came to tourism. Obviously, things such as RET have been an advantage and are welcomed for bringing people here, but it must be ensured that, when tourists get here, they can enjoy the island in the way that they would want to and would consider the experience to be good. The potential has not been maximised because the advantages of the island are not all being maximised.

On education, there was a feeling that more vocational education is required. The school is good at getting people into further and higher education but not necessarily into the types of course that will ultimately benefit the island. That issue has to be addressed. It is all right to get people to a good standard of education but to what purpose and how will it benefit the local community?

That brings me back to the dominant issue of housing. The mix of housing is not right. Property prices and land banking are problems. Land banking does not allow the development of the type of property that communities need so that they get the right mix for those who want to work here but cannot stay and those who want to come back but cannot afford to. There has to be some co-ordinating around housing.

The marketing of Arran as a brand from which individuals and companies can benefit is also an

issue. Although they compete against one another, they have to work together and, if they were to do that within the context of Arran the brand, people would benefit from the advantages that that would bring.

That was where the two suggestions came in. There was a challenge to the Scottish Government to get the available money—there was recognition of the money that comes to the island—and for it to be used in a way that benefits the community better. Community planning has to be implemented but not by creating another layer of administration. No desire was expressed for creating another source of income or for putting another layer of administration on top to pull everything together. However, there was a suggestion that, given that HIE, the local authority and the health board are not coterminous and do not talk to one another in a way that benefits the island, someone on the island is required to pull all those things together. The suggestion is that a chief executive of the island should be created—someone who would have responsibility for pulling all the strands together.

The three things that the committee has been encouraged to look at could be pulled together by that officer. I am not talking about a mayor or someone who goes around opening things; I am talking about someone who has responsibility for driving and connecting all the things that have been discussed. That person would also have to do that within the three areas that we discussed and not focus on one of them, because that would be to the detriment of the other two. All three need to be brought together. Creating such an office for the island could stop that silo mentality and connect all areas together.

The Convener: Thank you. Gavin Brown, is there anything that you wish to add?

Gavin Brown (Lothian) (Con): That was an excellent summary. I was hugely impressed by the group. One of the highlights was hearing the local MSP being described as someone who is pushy but gets things done, which tickled me somewhat.

The Convener: Gee, thanks.

Gavin Brown: I thought that I would feed that back, convener.

Michael McMahon and the others have touched on broadband and it came across to me as a priority that really needs action. The tourism industry is critical to the island and, particularly in the case of high-end tourism, people just expect to find broadband and wi-fi and so on. It is probably more important for the businesses themselves. If someone is trying to sell something online but is struggling to get a broadband connection, that puts them at a huge competitive disadvantage. One of the contributors said that, on an average

day, she has to reboot her broadband connection at least five times. It is bad if that happens once in a blue moon, but the idea of it happening five times a day is absurd, so it needs to be made into a real priority.

The Convener: Yes. Without going into detail, I will say that that is something that we have been looking at for a long, long time and there is some light at the end of the tunnel for the island on that issue and on mobile connectivity.

There are common themes running through each of the three groups, as we would expect. RET has not exactly come in with a big bang as far as the mainland is concerned. There is an issue with people in other parts of mainland Scotland knowing about it and that issue should be pressed with CalMac and VisitScotland; I will certainly do that.

I thought that the sessions were very good. Jim Johnston found the discussions hugely impressive as well. There are a lot of issues for the committee to reflect on and take up with the cabinet secretary.

I express my sincere thanks to everyone who has taken the time to come along this morning and talk about these ideas and issues. It is important to have sessions like this. It gives the committee a wee flavour for the issues that are out in the real world as opposed to some of the issues that we normally discuss, and it lets us address issues at the sharp end by discussing them with people rather than with the organisations that represent people who are working at the sharp end.

I suspend the meeting until 1.00 pm, when we will continue with our formal session. You are all welcome at that session, at which we will take evidence from the cabinet secretary. It is worth people coming along to that, at least for part of it if they cannot be here all day. Once again, I thank you for your participation and I hope to see you all this afternoon.

12:11

Meeting suspended.

13:03

On resuming—

The Convener: The second item on our agenda is evidence taking on the Scottish Government's draft budget for 2015-16. I welcome to the committee John Swinney MSP, Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy. He is accompanied by four Scottish Government officials: Andrew Watson, deputy director for financial strategy;

Graham Owenson, head of the local government finance unit; and Alison Cumming, head of tax policy.

I invite the cabinet secretary to make an opening statement.

The Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy (John Swinney): I welcome the opportunity to appear before the committee to discuss the draft budget in the beautiful surroundings of the island of Arran. I had the opportunity to visit a couple of businesses in the area in advance of the meeting.

The draft budget was published following the referendum debate, which was most vibrant political debate that Scotland has ever experienced. Since 2007, the Government has aspired to deliver opportunities for all to flourish by increasing sustainable economic growth, and I believe that the hopes that were expressed with breathtaking clarity by Scotland's people during the referendum process helped to reaffirm that aspiration as the correct direction for the Government to take. Since the draft budget was published, the programme for government has also been published and the Government has heard the outcome of the work of the Smith commission.

In developing the budget in the light of the referendum process, it was clear to me that Scotland's people wanted to live in a more prosperous and much fairer country than the one that we live in today. Our spending plans reflect those hopes in so far as our existing powers enable us to deliver on them. The budget priorities include measures to make Scotland a more prosperous country, to tackle inequality and to protect and reform our public services. Our spending proposals reflect the fact that we are not content simply to return to pre-recession levels of economic growth; we want to ensure that the benefits of economic growth are not simply maintained but made accessible to all our citizens.

On the theme of prosperity, we will invest further to strengthen Scotland's labour market and to ensure that the benefits of economic growth are sustained and shared. We will maintain our commitment to education that is based on the ability to learn, not the ability to pay; we will maintain the most competitive business rates regime in the United Kingdom, including through the small business bonus scheme; and we will secure infrastructure investment of around £4.5 billion in 2015-16.

On the theme of inequality, we will continue to deliver the social wage and strengthen our commitment to the Scottish living wage. We are increasing our spending on welfare reform

mitigation to £81 million, including £35 million to support people who are affected by the bedroom tax. We will also provide an additional £125 million for a package of housing investment, which will have a strong focus on affordable and social housing.

On protecting public services, the draft budget passes on the full resource consequential to the national health service, which takes the health budget to more than £12 billion for the first time. We continue to invest in preventative expenditure and to support the early years collaborative, while boosting to £173.5 million the budget to directly support the integration of health and social care.

For the first time, the draft budget has provided me with the opportunity to set national tax rates in Scotland. In exercising our first judgments on national taxes, the Government has put fairness, equity and the ability to pay at the heart of what has been done. That reflects some of the principles that I set out in our approach to taxation when the Government acquired the financial responsibilities that we now have. We will also take forward those principles in the review of local government finance that was announced as part of the programme for government last week.

In due course, the Government will consider the recommendations of the Smith commission. I will make a statement to Parliament on the details of those recommendations tomorrow.

In relation to the new tax powers and the question of the block grant adjustment, I received a response to my letters to the Chief Secretary to the Treasury of 3 October and 6 November on Friday, and I am considering the issues that he has raised with me.

The Government aims at all times to improve and enhance the process of budget setting in the light of recommendations that are made by committees and stakeholders more generally. This year, we adjusted the presentation of our level 2 figures to include figures for the preceding year, including any in-year changes. We have also responded to the various recommendations on the national performance framework and have provided additional information about the budget in the context of the Scotland performs framework. In addition, I have asked officials to develop proposals to improve and enhance our financial reporting.

I will be happy to answer questions from the committee.

The Convener: Thank you very much for that opening statement.

For those who are not familiar with the deliberations of the Finance Committee, I will ask

some opening questions, after which I will open up the session to colleagues around the table.

My first question is about land and buildings transaction tax. From 1 April 2015, the Scottish Government will have the power to raise taxation by that method. LBTT replaces stamp duty land tax, which is currently a UK tax. Cabinet secretary—I suppose that I should now call you Deputy First Minister, John—

John Swinney: Anything will do, convener.

The Convener: By and large, the proposals have been warmly welcomed. People who buy a house for less than £135,000 will not have to pay any tax, and for houses that cost between £135,000 and £250,000 the rate will be 2 per cent.

However, real concerns have been brought to the attention of the committee about the 10 per cent levy on houses that are sold for between £250,000 and £1 million. It has been suggested that the Scottish Government should perhaps have considered a tax band of 6 or 7 per cent for houses that sell for £250,000 to £500,000.

I know that 95 per cent of people who buy houses will be better off under the Government's current proposals and that no one will be worse off if the house that they buy costs less than £324,300, but concerns have been brought to us. Homes for Scotland says that the change

"will possibly lead to some distortion in the market, with people making decisions on whether or not to proceed with a transaction."

The Scottish Fiscal Commission has commented that the forecasts for your proposals do not take into account the possibility of a "behavioural response" as a consequence of

"relatively high tax rates applicable to the upper band of ... LBTT".

Can you talk to us about why you have set the bands at the levels you have chosen?

John Swinney: I listen carefully to the feedback from the various interested parties about the decisions that we have made, and I will consider fully all those representations, including any conclusions that are arrived at by the Finance Committee, in advance of the finalisation of the Government's budget and its presentation to Parliament in January.

A number of stages had to be gone through to get to the decisions that I made in setting the land and buildings transaction tax. The first question that had to be addressed was whether the changes that were going to be made would be revenue neutral or whether they would increase or lower the amount of tax take. I had confirmed firmly to Parliament that I intended revenue neutrality to be my principal consideration. Once I

had established that principle, I had to decide where the tax should fall and what particular measures I intended to take to strengthen the housing market.

The key decision that I took was to address what has been, for some time, pretty consistent and strong market information that we need to make it easier for people to enter the property market as first-time buyers. I also had to make it more practicable and tangible for people to move from the first property that they purchase to the second rung on the property ladder. I took the decision that I would establish the threshold for paying the tax at a higher level than the threshold for stamp duty land tax in order to remove a number of transactions. For first-time buyers, a tax charge of around £1,200 or £1,300 would be a significant amount of money to have to find, particularly in the culture that we now operate in whereby householders must, in almost all circumstances, have a fairly significant deposit to put down on a property. I was trying to influence the housing market by raising the threshold and removing a number of properties from the equation.

The second part of the discussion was about the need to reduce the tax burden for people who buy a property for around £260,000 to £280,000, which would more likely be the second property that they purchase. A property of £260,000 would require a stamp duty charge of £7,800, whereas a property of £240,000 would require a stamp duty charge of £2,380. For a difference of around £20,000, there was an enormous difference in the amount of tax that was charged under the old system, and I was trying to take the edge off those payments for people moving into their second property.

13:15

The £250,000 level was a particularly stressful part of the market under the old system because of the nature of the stamp duty land tax system, with a disproportionate number of transactions at £249,000. We wanted to avoid individuals paying more in taxation and to exempt lower-priced properties from the equation, so the higher charges were a product of that calculation.

That was the policy thinking that went into the rate-setting process that I undertook. I quite appreciate that representations have been made to the committee about the decisions that were arrived at. However, our rationale was to ensure that nobody who acquired a property that cost under £325,000 would pay any more in tax and that, in many cases, people would pay significantly less than is currently paid under the stamp duty land tax system.

The Convener: I want to ask you again about possible behavioural responses with regard to the “relatively high tax rates applicable to ... LBTT”.

I will just go through some figures that I noted as you were speaking. Under the current system someone who buys a house for £260,000 pays £7,800 in stamp duty land tax, whereas, next year, under your proposals, they would pay £3,300 in land and buildings transaction tax for a house at that price, which would mean that they would be significantly better off by £4,500. However, someone who buys a house for £400,000 currently pays £12,000 in stamp duty, but under your proposals they would pay £17,300. Homes for Scotland considers the jump in tax for properties that cost between £325,000 and £500,000 to be “punitive”. That is why I asked why you did not consider a 6 or 7 per cent banding for houses that cost between £250,000 and £500,000.

To balance that, the Scottish Building Federation has said that, at the lower end, the proposals

“could boost the construction industry, in particular by stimulating affordable housing.”

The SBF agrees that what you propose for less-expensive houses is great and will boost housing and so on. However, at the other end, the tax rise will be very steep for properties above the £324,300 mark. Would you be willing to look again at the rate changing from 2 per cent to 10 per cent at the £250,000 level?

John Swinney: My answer is that if I had not taken that decision, given that I had established the principle of revenue neutrality, the financial difference would have to be paid by somebody else. That could have come at the expense of lifting the threshold for lower-cost properties or increasing the tax charge for such properties, for which there are many more transactions and therefore many more transactions on which the taxation burden could fall. Alternatively, it could have led to even more significant rates of taxation for higher-cost property transactions, of which we have relatively few in Scotland. For example, only 2.2 per cent of the annual transactions in Scotland involve properties that cost above the £500,000 level, so, based on historical performance, we would have a relatively small number of transactions in a year to which a significant rate of taxation could apply.

The judgment that I formed was based on trying to secure the policy response that you highlighted from the Scottish Building Federation. My objective was to provide a stimulus for more individuals to come into the first-time buyer market. For example, somebody who buys a property at £135,000 will save £1,350 as a consequence of the proposals. Certainly on the

evidence that I see, a saving of that magnitude for a first-time buyer, who perhaps might have to find a 5 or 10 per cent deposit, is a material sum of money that would assist that individual in making a decision about a property's price.

If we accept the parameter that the tax must be revenue neutral, to deliver on your proposition, I would have needed an even higher rate of taxation on the more expensive properties or a higher tax charge or a lower threshold at the lower end of the property market. I suppose that, alternatively, I could have had lots more people paying more in taxation, which I did not think would help to stimulate the property market.

The Convener: The Scottish Fiscal Commission raised the issue of the behavioural response. Homes for Scotland said that some people might be keen to defer purchase of a house until after 1 April if they are going to be better off under the proposals, while others might want to pursue transactions before that. Has the Scottish Government done any modelling of the behavioural response that you anticipate and, if so, what impact has that had on your financial assessment?

John Swinney: I consider that to be an almost impossible piece of analysis to undertake. To go back to the statistics that I just mentioned, transactions above £500,000 represent 2.2 per cent of the market, and those over £1 million represent 0.1 per cent of the market. Given that, it would be very difficult to provide a meaningful analysis and estimation of behavioural impact. In the design of the model, we have taken a conservative view about the volume of transactions that we expect at the higher end of property charges. It does not take much variation in the number of transactions above £500,000 to have an effect, because they form just 2.2 per cent of all transactions and, as I highlighted, the number of transactions of above £1 million is even more limited.

The Convener: I have a couple more questions on the issue, then I want to move on, as I have a lot to get through and my colleagues also have questions.

On the purchase of land for residential development, Homes for Scotland has suggested that the increase in tax of 0.5 per cent from the current maximum charge of 4 per cent is “not helpful” and

“puts Scotland at a disadvantage”

in attracting housing investment, particularly from outwith Scotland. Do you agree with Homes for Scotland and the Scottish Property Federation, which is also concerned about the negative impact that the measure might have on the market, or are those suggestions overblown?

John Swinney: Let us look at the details. With a transaction that is valued at £2 million, the cost difference between the new system and the old system would be £250, which, to be frank, I consider to be irrelevant in a £2 million transaction. At £2.5 million, the difference would be £2,750, which is 0.1 per cent of the price of the transaction. At £4 million, the difference would be £10,250, which is 0.3 per cent of the purchase price. Even at £10 million, the difference would be £40,250, which is 0.4 per cent of the price. I consider those to be fairly marginal changes in the tax charges that are applied, whereas, at the lower level, there will be significant reductions in the tax charges to enable more vibrancy in the transactions that are undertaken.

The Convener: On the methodology that has been used to calculate the likely income, it is not clear how the Scottish Government forecast has been prepared relative to that of the Office for Budget Responsibility. Can you give us some information on that?

John Swinney: Obviously, a vast amount of detail is involved in the modelling exercise. If my memory serves me right, our officials might in the past have given the committee background information on some of the details. If they have not, I will be happy to arrange for my officials to work with the committee and the clerks to give you a comprehensive understanding of how the model operates.

I would characterise the difference between the model that we use and the model that is used by the OBR simply as being the difference between bottom up and top down. We have assembled a model that is based on the pattern of transactions in Scotland over a number of years. In the period immediately after 2008, the property market was depressed and, in the period before 2008, it was vibrant. We have been able to examine the number of transactions across those two periods, which have differing market experiences to build a picture of the range and number of transactions that we could reasonably expect in any given year. We have also applied to that assessments about economic performance and the economic circumstances that the country would likely face, which gives us a better feel for the volume of transactions.

The third element involves a judgment about whether we saw housing patterns taking the shape and the form that they have broadly taken over a large number of years. That is where my point about taking a more conservative approach to the number of high-value transactions comes from.

The OBR methodology essentially involves taking the overall position of the UK performance in relation to stamp duty land tax and breaking that down based on a contributory share from

Scotland. That does not take into account some of the refinements and the particular characteristics of the Scottish market, nor does it take into account the fact that the United Kingdom position will undoubtedly be skewed by the performance of certain elements of the English market, in particular the market around London.

As Professor Leith, a member of the Scottish Fiscal Commission, told the committee, there is no perfect model. I accept that. We can put together what we consider to be the most reliable and robust basis on which we can make estimates, but I would be the first to concede that this is not a perfect science.

The Convener: Talking of imperfect science, HM Revenue and Customs suggests that currently there is in Scotland a gap in stamp duty land tax of about £9 million. It is anticipated that LBTT's introduction, by removing sub-sale relief, will reduce that gap to about £4.5 million. However, why would there continue to be a tax gap? Last week, we had some quite interesting discussions with Eleanor Emberson of Revenue Scotland about the impact of the general anti-avoidance rule. I am just wondering how the gap is going to be reduced. There is a suggestion that there will be three additional staff to chase down the money, but people do not know whether the gap really exists or how they will measure whether it is being reduced. How is that going to work in practice?

John Swinney: The best way to consider the point is to talk not about a tax gap but tax maximisation. That is my objective. What underpins the general anti-avoidance rule and the establishment of Revenue Scotland is the simple position that people should pay the tax for which they are liable, and it should be collected. From my perspective, the strategy is about tax maximisation and ensuring that whatever liabilities people or organisations have are paid in full. Our compliance and collection arrangements are designed to do exactly that.

The Convener: We will turn to borrowing.

In its report on the draft budget 2014-15, the committee asked whether the Government had discussed with HM Treasury the terms of any borrowing. The response that we received said that the Government

"would expect to agree terms with HM Treasury at least 6 months ahead of the financial year in which borrowing will be drawn down (i.e. by October 2014 for the 2015-16 financial year)."

Where are we with regard to those discussions?

13:30

John Swinney: The Government has made it clear in the 2015-16 budget that we intend to

borrow £304 million to contribute to our capital programme. The modelling in the draft budget assumes that we will borrow from the national loans fund, with repayments made over 25 years and charged at an interest rate of 5 per cent from 2016-17 onwards. We will have on-going detailed discussions on that with HM Treasury.

We will procure that borrowing as part of our overall capital programme. We have a capital departmental expenditure limit budget of approximately £2.5 billion, to which we will add £304 million of borrowing, but we will borrow the money only when we require to do so. We will not borrow in advance of need, because that would incur additional costs if we already have available DEL capital cover to enable us to support our capital programme. We will take a prudent approach regarding the moment at which we procure that borrowing in consultation with HM Treasury.

The Convener: I take it, therefore, that it is not really possible to quantify exactly what the future repayment commitments will be.

John Swinney: I can make an assessment of that, convener, which is already implicit in the budget document, if my memory serves me right.

Two charts are relevant. In the capital table on page 5 of the budget document, we make an assumption that borrowing of £304 million will be procured in 2015-16. That will be within the framework that we have put in place to ensure that we operate within 5 per cent of our DEL budget, which is the ceiling for maximum revenue-financed investment or other forms of investment for which we are liable. The other chart is figure 1 on page 156, which brings together all the different revenue-financed investments, including private finance initiative programmes, non-profit distributing programmes and revenue-financed borrowing, for which we are responsible. The long-term cost—based on the assumption, to which I have referred, that the interest rate from the national loans fund will be 5 per cent over 25 years—is factored into that analysis.

The Convener: You mentioned in your opening statement the correspondence that you have recently received regarding the block grant, which is an issue that has obviously been of concern to the committee for a long time. Can you enlighten us on whether you have received anything of significance from the Treasury in that respect?

John Swinney: I received a letter from the Treasury on Friday. Has it been made available to the committee?

The Convener: No.

John Swinney: In the light of the fact that I have mentioned the letter, I will make it available

to the committee. In the letter, the Chief Secretary to the Treasury proposes that we initially seek to agree an adjustment only for 2015-16. The rationale for that is tied up with two elements. First, there is the fact that we have some further issues to wrestle with concerning the block grant adjustment, arising from the Smith commission report, which was published on Thursday. Secondly, we have financial information available only for 2015-16, and no financial information is available for beyond that. I am not particularly persuaded by the latter argument, although the former argument has some merits. We have known about the latter point for many years—it is not a new argument.

I am considering that letter, but I have set the budget on the basis that the block grant adjustment will provide the ability to support the budget and contribute to the cash reserve in order to smooth out any fluctuations in tax performance over the years. That will be the basis of my thinking when I go into discussions with the Chief Secretary to the Treasury.

The Convener: Thank you. I have a final question on an issue that came out of this morning's discussion sessions with people from the island. There are real issues about businesses on Arran not being able to compete because of lack of broadband and problems with mobile connectivity, which people have experienced in Lamlash this morning. How will the Scottish Government's budget help to take us forward on those issues?

John Swinney: The Government is participating in, and contributing to, the roll-out of next-generation broadband. Our financial commitments for our on-going programme run to the best part of £250 million. In 2015-16 we will deploy an estimated £42 million in that process to support the roll-out of next-generation broadband around the country. That project is being taken forward first in the Highlands and Islands, after which it will be rolled out across the rest of Scotland. It is designed to strengthen broadband capability in recognition of the significance of broadband to the operation of all parts of Scotland. Broadband is now of such significance that many businesses—certainly the ones that I visited this morning—operate online services, so it is important that they have access to quality broadband.

There is frustration, which I share, at the fact that there is absolutely no obligation on the telecommunications companies to get broadband to every locality in the country. It is much more challenging to secure broadband in some parts of the country, because of their topography, than it is to do so in other parts, and I am frustrated by the limited pressure that we can put on telecoms

companies. If the telecoms companies had a universal service obligation on broadband as they have on telephony services, the pressure that we could apply to those companies would be a great deal more significant than it is today. We are working in collaboration with the telecoms companies to maximise roll-out of broadband as comprehensively as we can.

The Convener: Thank you. I open the discussion to colleagues around the table.

Jean Urquhart: Good afternoon, cabinet secretary. You mentioned in Parliament—and you have done so again today—the increase in funding for housing. In our discussions with folk from Arran earlier today, each group cited housing as an important issue. We talked about economic development, business growth and hindrances to them, and housing was seen as being key to such development and growth in many instances. How will the increase in the funding for housing that you propose benefit small rural communities, and how will Arran and other island communities be able to access that funding?

John Swinney: I addressed some of those points in the budget statement in October.

One of the ways in which we ensure that such programmes are deployed around the country is by making an allocation of resources to all localities. The allocation of the affordable housing supply programme for 2015-16 to North Ayrshire will be £5.2 million. That is one of 32 allocations that have been made around the country to support development of the supply of affordable housing in all parts of Scotland.

There are, of course, other investment schemes that can provide assistance. The low-cost initiative for first-time buyers—LIFT—scheme has £30 million of support in it, the home owners support fund has £10 million and we have £51 million invested in other centrally managed funding programmes that are dispersed around the country.

One of my budget decisions was to expand the housing budget by a further £125 million. We are discussing with various interested parties how we can best deploy that resource in a fashion that supports and reinforces the investment in social housing and affordable housing programmes around the country.

Jean Urquhart: One of the barriers to housing development is often access to land—again, I am interested in small rural and island communities in particular. Is there any consideration of an increase in the Scottish land fund, so that if there is money available for housing, money can be made available for land in the same way?

John Swinney: The Scottish land fund is predominantly focused on enabling and supporting the acquisition of land for community development and community buyout purposes. Of course, some of that work can be related to the housing sector into the bargain.

I am conscious—I think that I made this point to Jean Urquhart in my autumn budget statement—of the significance of literally just two or three social rented properties in an isolated location. That can have a transformative effect in a host of different ways, from access to the labour market to providing quality housing accommodation for individuals on a moderate income. There are ways in which the Scottish land fund can be used to support such developments and I encourage any interested parties who are taking forward such developments to contact Government officials to determine how that can best be done.

Jean Urquhart: Thank you very much. As you know, I see the building of new housing on a very small scale as contributing hugely to economic development. Often it makes a big difference and there is potential for new businesses to start as well, which should also be considered.

One other issue that I wanted to raise was the proposal in the First Minister's programme for government to change the community charge that we all pay. There has been criticism from some people that, by freezing the council tax, we have somehow denied development in Scotland. Personally, I think that the community tax is desperately unfair and out of date; it appears to have little relevance today and desperately needs to be reviewed. Will local authorities and everyone else concerned be involved in what is proposed? Also, do you think that people are genuinely aware of the percentage of the budget overall that is raised by the community tax? Often, we are told that we could have new schools if only we put another 10p on the community tax.

13:45

John Swinney: On the last point, I do not think that there is wide awareness among the general public about the proportion of local authority funding that is raised at local level. I do not think that that is particularly well understood. That is part of the exercise that we will embark on; I will come on to say a little bit more about that in a moment. We have to make sure that that is one of the key considerations.

I do not think that an argument that the council tax freeze has hampered development in Scotland could be sustained. I do not accept the basis of that point. The council tax freeze has given practical support to householders, many, although not all, of whom will be in circumstances in which

paying the tax puts them under financial pressure. For many people, the council tax will be their largest bill—it will be even more significant to them than their mortgage—or their largest bill other than their mortgage.

Before the Government came to office, the council tax had risen very significantly. We decided to freeze it. We promised that in the previous session and in the current session, and we have fulfilled that commitment in partnership with our local authority colleagues. The benefit of that has been to provide some respite to householders who have been challenged with their finances. Obviously, as part of the local authority financial settlement, we have compensated local authorities to the tune of £70 million per annum for the cost of the council tax freeze.

The Government has received a recommendation from the Local Government and Regeneration Committee that we should establish a broad and inclusive process to consider what the future of local authority taxation in Scotland should be.

That gets to the nub of the question that Jean Urquhart asked me about the degree of knowledge of local authority taxation. Obviously, we as a Government have a manifesto commitment to consult others on how to reform the system. Last Wednesday, the First Minister announced that we would embark on that process. I am determined that the process will be inclusive. We have extended an invitation to our local authority partners to be involved in it, and that has received a positive welcome from them, for which I am grateful. I hope that it will receive an endorsement across the political spectrum.

I am anxious to ensure that everybody across the political spectrum has access to the same information and the same knowledge about the ups and downs of all the different systems so that we can have an informed debate and, if we can, come to a conclusion that is broadly shared across the political spectrum. The lesson that I took from our debate about a local income tax versus the council tax was that it became very polarised. I am interested in trying to create a debate that has a bit more agreement at its heart as we go forward. We will structure the process in a way that is designed to make it as inclusive as possible.

Jean Urquhart: Finally, I go back to the issue of broadband, which was raised this morning and which the convener has raised this afternoon. I was looking for this, but could not see it. Government money is being invested in community broadband Scotland, which is seen as an initiative that might fill a gap or some gaps. BT's programme for delivering broadband obviously leaves areas that will not receive broadband in the meantime—I will not say that

they will never do so. Are you likely to continue that fund, at least for the duration of the programme that BT is carrying out? Is it a condition of that that community broadband Scotland and BT work together?

John Swinney: We have put in place an additional £1 million of new capital funding to community broadband Scotland for 2015-16. I was searching for the total amount, but it is not readily coming to hand.

Community broadband Scotland's role is to work with individuals whom the main programme cannot serve. In a sense, that comes back to my point about a universal service obligation. I think that there should be such an obligation on all telecoms companies to get broadband to everybody. That should be part of the deal, because it is a lot more efficient, and therefore more profitable, to provide broadband services to conurbations, which is a doddle for telecoms providers, but providing them to properties on Arran will be a great deal more challenging.

The gains made by the telecoms companies in the cities and large conurbations should be used to support the roll-out of more expensive solutions to our rural areas but, unfortunately, I cannot enforce that because there is not a universal service obligation on the telecoms companies. Recognising the fact that it is not good enough just to say, "Well, I'm afraid you're too far away from the exchange, and it's too hilly," or whatever the reason happens to be, community broadband Scotland is in place to work with communities to address that challenge.

Jean Urquhart: I understand that the funding comes partly from local authorities, which puts them at a disadvantage when the cost of delivering broadband is so much higher and they have to find extra cash that local authorities in urban areas do not have to find. That has to be a consideration in the general funding package.

John Swinney: Yes, and part of our objective is to ensure that that resource is deployed effectively around the country to meet as broadly as possible the needs of different local communities, because it is just not good enough for us to say that there are some parts of our country that are too difficult to reach. One of the great strengths of the Highlands and Islands economy over the course of the difficult economic period that we have had since 2008 is that, for the first time ever, it has performed better during an economic downturn than the rest of Scotland has. I would ascribe a lot of that to the presence of digital connectivity, because it meant that economic activity in the Highlands and Islands could remain linked to economic activity elsewhere, as opposed to what has traditionally happened in economic downturns, when people have had to leave the Highlands and

Islands to seek opportunities elsewhere. That connectivity has had a dual benefit in terms of economic activity and population stability.

Gavin Brown: Last week, you announced the Scottish business development bank. It is obviously not in the draft budget for 2015-16—or at least I could not find it—so can you tell us what impact that announcement will have on the draft budget?

John Swinney: What we announced in the programme for government last week is the preparation of work to establish a business development bank. We will explore the opportunities to do that and the practical issues associated with it based on the work that has been undertaken to date in the Scottish Investment Bank, to determine how the core activities of the Scottish Investment Bank can be taken forward to develop a more comprehensive proposition that can be made available to the business community in Scotland. As for its effects on the budget in 2015-16, we will determine that once we have concluded the preparatory work that we are undertaking.

Gavin Brown: Do you have a rough timescale for when you want to conclude that preparatory work and flesh out what the bank will do?

John Swinney: Some of the trickier issues that we have to wrestle with are to do with accountancy and accounting for the work of the Scottish business development bank, rather than about the utilisation of resources. Principally, we have to design a mechanism that enables us to provide a meaningful level of support and lending capability in the business community in a fashion that is consistent with our public sector accounting roles. That will be the challenge, and that has always been the challenge at the heart of the Scottish business development bank. In that respect, I will have to undertake a great deal of discussion with other interested parties, one of which will be Her Majesty's Treasury, so I would be loath to define a timescale for concluding those discussions.

Gavin Brown: You decided earlier this year—I think that it was in March—not to go ahead with the Scottish business development bank. Now, in December, you have decided to go ahead with it. What changed between March and the announcement in November?

John Swinney: I have heard Mr Brown comment on that subject frequently, and I enjoyed his contribution on the question in last Thursday's debate in Parliament. At no stage have I shelved the proposition of a business development bank—I was searching for a way to do it, and I am still searching for a way to do it. I hope that the committee understands that I am not in any way

being difficult about the process. I am trying to find a workable way to do it that is compatible with the management of the public finances and the accountancy rules that I am obliged to follow.

Gavin Brown: You have already been asked a couple of questions on housing, so I will be brief on that. You talked about additional resource for 2015-16 of £125 million. You made an announcement last week about £30 million. Is that £30 million part of the £125 million?

John Swinney: Is that the £30 million for the help to buy scheme?

Gavin Brown: Yes.

John Swinney: So that I do not give incorrect information, I had better write to the committee—*[Interruption.]* I am told by my officials that it is part of the £125 million.

Gavin Brown: So £95 million of that is still to be announced. I presume that you have not yet made final decisions, but what is the most likely outcome for that remaining £95 million and when do you plan to decide on that and announce it?

John Swinney: We plan to announce that before the start of the financial year. My expectation is that the overwhelming majority, but perhaps not all of it, will be focused on affordable housing.

Gavin Brown: The next issue that I want to consider is preventative spend, which you have talked a lot about. Your first budget of the current spending review period talked about a “decisive shift” to preventative spend and, over the course of three years, the best part of £500 million was shifted to that. At page 11, this year's budget document states:

“Analysis and feedback from the three Change Funds demonstrates the real progress that is being made.”

Can you share with the committee, either verbally now or in writing, what analysis the Government has done on that and what it has demonstrated?

John Swinney: An assessment is undertaken of the performance of each of the three change funds that we have set up. That is one element of analysis that has been completed. Secondly, there is the analysis that the Accounts Commission undertakes to review the work of community planning partnerships, which are absolutely critical to the process of reshaping the delivery of public services. The Accounts Commission has done comprehensive work to assess the effectiveness of community planning partnerships in reshaping public services at local level. That has been done in considerable detail through a number of audits in various localities to satisfy us that the work is being undertaken.

Thirdly, there is the continued learning that we undertake through ventures such as the early years collaborative. The focus on prevention is not analysis of a moment in time; it is continuous analysis to find how we can reshape public services to apply the principle of preventative intervention as the model of how we deliver public services rather than the exception. The early years collaborative, which brings together public service practitioners from all 32 community planning partnership areas who are involved in supporting children, provides the learning base for how we deploy resources in a different fashion that satisfies the preventative standard. Those are three elements of the analysis that we have undertaken. However, bodies such as the public service reform board are now focused almost exclusively on monitoring and challenging the effectiveness of community planning partnerships at a local level in responding to the prevention challenge.

14:00

Gavin Brown: At a national level, what do you think the outcome has been of that £500 million investment?

John Swinney: The core impact is that, through that investment, we have taken steps to reduce the long-term demand for public services. I will give you an example of that. The effectiveness of the reducing reoffending change fund in reducing reoffending behaviour reduces the call on the public purse significantly in a host of different areas. It reduces the long-term cost of and demand for prison places. It also reduces the long-term demand on public services resulting from wider damage. For instance, if someone is not assaulted or the victim of a knife crime, they have no need to use public services for emergency care. That is how I would characterise the effectiveness of the programme. However, I caution the committee against believing that that work is complete. From now on, this must be how we manage our public services. Ensuring that we reduce demand for public services as we proceed is the key to establishing fiscal sustainability for our public services.

Gavin Brown: I have one last question in this area. I agree entirely with the theory behind preventative spending—you will know that the committee as a whole endorsed it and that it has broad political support. I also think that your last point is perfectly fair. The situation does not change overnight but can sometimes take 10, 15 or 20 years to change—the change can be generational. However, what I would press the Government to try to produce, although I might not get it now, is something that can demonstrate that we have at least moved in the right direction and

that, over those three years, spending £500 million in the way that you have has produced a slightly different outcome from what would have been achieved if you had given the money to the NHS and local authorities without the same focus. You may not have an answer to that right now, but I would press the Government to produce something like that.

John Swinney: I am happy to furnish the committee with more detail. We have a lot of detail on the effectiveness of the change funds and the focus on prevention.

Not all the achievements that have been made in the shift to prevention have been delivered by the change funds, and that was one of my objectives. In fact, one of my worries—I may have shared this with the committee in the past—was that public servants would take the view that the only money that was being used to enable preventative interventions to take place was the £500 million of change funds. If that had been the case, we would have missed the point spectacularly. Over a three-year period, £60 billion is spent on health and local government services in Scotland, and my challenge to public servants was that we should use that £60 billion—not just the £500 million of change funds over three years—to deploy public services in a more preventative and sustainable way.

I think that we are making progress in that way. An analysis of that has been undertaken, which I am happy to assemble and share with the committee to assist it in its deliberations. I appreciate and value the committee's support for that direction of travel because it helps me in my discussions with public servants if I am able to talk about the requirement of being accountable to the Finance Committee on such issues.

We have also invested jointly with the Economic and Social Research Council in establishing a facility called the what works Scotland centre, which is designed to inform learning about reforms to public services. I look forward to seeing the outcomes from that area of activity, as it will be crucial to delivering the sustainable approach to our public finances.

Gavin Brown: Let us move on to land and buildings transaction tax. I will deal with the housing side of it first, on which you were asked a number of questions by the convener. Would it be fair to say that, when the Government did its projections, it did not do a behavioural impact analysis?

John Swinney: I did not apply a behavioural impact analysis.

Gavin Brown: The Scottish Fiscal Commission pointed that out. As you know, when the UK Government does its budget, as well as producing

a static cost, it conducts a behavioural analysis, which it takes into account in arriving at the expected cost. Is the Scottish Government planning to do that? Do you have the capacity to consider doing that?

John Swinney: We have constructed what I think is a more sophisticated model for the calculation of LBTT. In my earlier exchange with the convener, I tried to reflect the fact that our approach to the calculation of LBTT is driven by an assessment of the evidence base in Scotland. While I accept that that does not include a bespoke behavioural analysis, I believe that the evidence on which that assessment is based is more securely founded in past practice, so it allows us to have a much stronger sense of how the tax will be deployed than the analysis that the Office for Budget Responsibility carries out does, which involves making a subset calculation of a UK figure for Scotland. I do not think that that takes into account in a reasonable way the significant effect on the process of the performance of the London and south-east residential market.

As we deploy the tax and see it take effect, we will, of course, consider such issues on an on-going basis.

Gavin Brown: I know that you have studied tax in a range of fields, but is it your view that a jump from 2 per cent in one band to 10 per cent in the next band will have little or no behavioural impact?

John Swinney: I think that it will have little or no behavioural impact.

Gavin Brown: On what basis?

John Swinney: On the basis of the number of transactions involved. I come back to my point that only 2.2 per cent of the transactions in Scotland are for properties that cost more than £500,000. Any analysis of the graph of the number of transactions shows what can only be described as a long tail as the cost gets higher. I do not think that that is a significant factor in the calculations.

Gavin Brown: The convener pointed to the evidence that we have received from a number of organisations. How do you respond to organisations such as Homes for Scotland, which suggests that the 10 per cent rate will have a negative impact on the market, particularly at the £325,000 to £500,000 level?

John Swinney: My response is based on the evidence. The average property price for every local authority area in the country is below the level at which any properties will be affected by an increase in taxation. From that, I deduce that the tax level has been set in a fashion that more than adequately reflects the fact that property

purchases have been made in a sustainable way given individuals' financial circumstances.

My second point is of particular relevance to Homes for Scotland. As finance minister, I have to look at all the evidence that I am presented with and not just bits of it. I accept that there are strongly held views about the implications of the changes that I have made, particularly for properties that are sold for more than £325,000. However, across the evidence base, there is a queue of people saying to me, "What you've done at the bottom end of the market is exactly what the market requires to get more people buying, and what you've done in the middle of the market is absolutely right because it gets people out of their first home and into their family home."

The threshold that I talked about earlier—the difference between paying a tax charge of £2,380 for a property costing £240,000 and a tax charge of £7,800 for a property costing £260,000—is a real obstacle to the majority of people moving their way up the property ladder.

I accept that people could say that I have put in place tax charges for properties above £325,000 that will make it challenging for people in some parts of the country, but I would contend two things in that respect. First, the overwhelming majority of the market—90 per cent of transactions—will have either the same or lower tax charges as a consequence of my changes. Secondly, in those transactions, people are better equipped to be able to pay the charges. To me, the difference of more than £5,000 between the charge for a £260,000 property and the charge for a £240,000 property is a real barrier or obstacle for middle-income families that are trying to make their way up the property ladder. I have had them in my mind in trying to tackle the issue.

Gavin Brown: I have one other issue to raise. In the draft budget, you talk quite a lot about internationalisation being critical for business—that is one of the document's themes. What big new initiatives are you launching around internationalisation?

John Swinney: The approach that we will take is to build on the experience that we now have behind us on the successful promotion of Scottish companies and their products to a wider international audience through the system of very focused company support that is taken forward by Scottish Enterprise and Highlands and Islands Enterprise, interacting directly with the work of Scottish Development International and ensuring that, in the key and emerging markets, we have the strongest possible presence to support Scottish companies.

The First Minister explained this morning in a speech to the business community the importance

that we attach to ensuring that that connectivity to emerging international markets is as strong as it can be as a consequence of our efforts.

One of the key elements of how we enable that support to be taken forward is ensuring that our new focus on product innovation, which is now anchored in a range of innovation centres around the country, is used as a device to drive further collaboration with companies to ensure that their product base is sufficiently developed to enable us to have international competitiveness as a consequence.

Gavin Brown: All of that is fine, but are there any new initiatives specifically for internationalisation?

John Swinney: The focus on the interaction with innovation centres is a central part of the Government strategy that will take forward that international activity.

Gavin Brown: But are there any new initiatives?

John Swinney: I consider that to be new.

Gavin Brown: Okay.

Michael McMahon: Cabinet secretary, the additional funding for mitigation of the welfare reforms is very welcome. You certainly will not hear any criticism from me of the additional investment that the Scottish Government is putting into that. However, evidence that I have heard at the Welfare Reform Committee and some that we have heard at the Finance Committee indicates that that funding brings some burdens to local government in particular. I want to explore that a bit with you.

It is estimated by some that the ballpark figure for the administrative cost for local authorities to deliver the Scottish welfare fund is between £4 million and £5 million. Was that cost factored into the funding in the budget for local authorities? Has it been taken account of?

14:15

John Swinney: If my memory serves me right—I will verify this afterwards—there was a transfer of administration costs that came with some of the transfer of responsibilities to the Scottish Government from the United Kingdom Government. We will, of course, have added different elements around the transfer of responsibilities from the UK Government to comprise the Scottish welfare fund. My recollection is that we had a discussion with local government on those questions. I certainly cannot recall local government being at odds with the Scottish Government about these questions,

although it might have been at odds with the UK Government.

Michael McMahon: I think that the Convention of Scottish Local Authorities is doing some benchmarking on this, and the figure of £8.3 million for the actual cost appears to be emerging. Again, I do not know whether that is a specific figure. I think that Margaret Burgess, the Minister for Housing and Welfare, is awaiting some feedback on that.

If the additional cost to local authorities is around £8.3 million, will they receive support to administer the system? We want to get the money to those who are most in need, but if the problems that I am hearing about are to be avoided, we need to get additional money to local authorities.

The information that I have is that local authorities are transferring staff from one department to another in order to process the claims. That means that some departments are losing staff and difficulties are being created with staff turnover in various departments. It seems that the administrative burden that is being created in relation to delivery of the Scottish welfare fund is creating difficulties. What assistance is necessary in order to alleviate that problem?

John Swinney: On the detail, the Government included an assumption of £5 million in administration costs in relation to the Scottish welfare fund. That underpins the resources that are available in that respect.

We co-operate closely and effectively with local government in this area. The joint work that has been undertaken between ministers and, in particular, Councillor McGuigan of COSLA has been welcome in that respect. We will happily explore all those questions to ensure that we are able to address any issues properly and effectively.

In this discussion—I am sure that Mr McMahon will appreciate the way in which I express this point—we have to be mindful of the efficiency and the cost of operation of these services. I would want to apply some tests. If COSLA is doing some benchmarking in this respect, that is welcome. We might well find that one local authority has a more efficient way of going about the process than another one does, and we should not be so precious that we cannot learn from good practice in other parts of the country.

I am happy to explore those issues and interact in that respect and I am sure that Margaret Burgess is doing so, too. I also want to put down a marker that we would want to have an effective challenge process in place to ensure that the correct judgments will be made about the efficiency of the operations.

Michael McMahon: Yes, because another criticism concerns the possibility that it could cost £5 million to administer a £33 million fund. To some people, that sounds excessive. What are your views on that?

John Swinney: Instinctively, that sounds to me like quite a high cost for the distribution of a £33 million programme. If it was being argued that the cost was £8 million, I would be asking some pretty hard questions about that.

Michael McMahon: Early indications from statistics are that—

John Swinney: The one thing that I would want to add to that point is the crucial point that Mr McMahon made. Every penny that is taken up by administration is money that is not going to extremely vulnerable people. The obligation on the public sector to keep its costs to an absolute minimum in order to maximise value for the recipients is a key consideration.

Michael McMahon: Again, I totally agree with the cabinet secretary. We are talking about the early years of the Scottish welfare fund. The Child Poverty Action Group Scotland has produced statistics that show that delivery of the grants and community funds that were available through the Department for Work and Pensions was at about 98 per cent efficiency for a one-day turnover. The Scottish welfare fund appears to be sitting at around 94 per cent efficiency for delivery. Do you agree that we have to get that money to those who need it more efficiently and effectively?

John Swinney: Absolutely—yes. I will certainly take a close interest in the issues that Mr McMahon has raised after this meeting.

Michael McMahon: There is speculation about consequentials coming from George Osborne's revisions. Have you given any thought to where your priorities would lie if you benefit from any consequentials?

John Swinney: Mr McMahon knows me well enough to know that I will be waiting to see the spreadsheet before I get myself excited about anything.

In the course of yesterday, from hearing the initial soundings of £2 billion of extra investment in the health service in England, my instantaneous calculator, which applies to everything, was applied. As the day wore on and I saw more information about where the money was coming from, I began to hae ma doots—if I can say that in the *Official Report*.

The Convener: “Hae ma doots” is already in the *Official Report*.

John Swinney: I am sure that you must have put it there, convener.

At least £700 million of the £2 billion that is being talked about is being recycled from underspends within UK departments. If that £700 million has come from an underspend in defence and it is being put into health, there might be a consequential for us, but if it has come from the housing budget, no consequentials will come to us. I will just wait until I see the spreadsheet at lunchtime on Wednesday.

I have seen some things. For example, this morning, I saw a press report from the Chief Secretary to the Treasury, who says that that will result in £125 million of consequentials. The standard rule of thumb of about 10 per cent would have had the consequentials at about £200 million, so you can see the effect of some of the recycling.

I also do not know where any other reductions will come from. We should not always wish for consequentials, because sometimes we get negative consequentials. I need to see all the transactions before I can come to a view on how much money there is and how much of it is new.

Malcolm Chisholm: Consequentials are one big impact from the UK Parliament and the block grant adjustment is another. I suppose that fiscal devolution will stand or fall by the block grant adjustment, and we have the first, limited example of that coming up.

Would it be right to assume that the Treasury is going to take from the block grant the predicted take for land and buildings transaction tax? I take it that that is the principle. Will the Treasury base that on your prediction or on its prediction—or have I missed something? Is that a simplification of what will happen?

John Swinney: My prediction and the Treasury's prediction will be material parts of the conversation that we are yet to have on the basic starting point, so those factors will be taken into account.

I have said to the committee before that it will be important to look at some of the patterns of the tax over a number of years in determining the level of block grant adjustment that should be made. We could look at the tax over a five-year or 10-year period to get a picture of what it has actually raised so that the judgment is not made in any particular economic circumstance. However, that will be part of the dialogue that we are yet to have.

Malcolm Chisholm: What contingency is there in the budget should the property market underperform? I am not sure to what extent your predictions have been confirmed, cabinet secretary, but I read an article by Bill Jamieson on Sunday in which he noted that the OBR predicted a 36 per cent surge in the property market and consequentially in stamp duty revenue over the

year. He characterised that as ridiculous and noted that the latest figure was 4 per cent. To what extent are you worried about the predictions and to what extent do you have a contingency if it turns out that the revenues do not materialise as you have predicted?

John Swinney: There are two issues. One concerns the OBR's previous prediction in March of £500 million from land and buildings transaction tax in 2015-16. The prediction that I published was £441 million; the committee will see that there is a difference in the outcome from the methodology. The commentary that Mr Chisholm mentions highlights some of the differences in opinion about the levels that can be expected.

The Scottish budget is predicated on the realisation of the total of £558 million that I have estimated will come from land and buildings transaction tax and the Scottish landfill tax to meet the budget requirements. I have said in the budget document and to the UK Government that we should expect the block grant adjustment to enable us to meet the demands of and to support the public services and to make a contribution to the financial reserve.

That brings me to my answer on the second point of Mr Chisholm's question. We have to build up a cash reserve to enable us to manage the vulnerability that will inevitably come from collecting a tax that we have never previously had to collect.

Malcolm Chisholm: That is helpful.

You gave several indications of how preventative spend is being monitored, including the Accounts Commission's report on community planning partnerships. Without quoting the whole document, I will pick just one sentence, which states that

"discussions about targeting these resources at their priorities and shifting them towards preventative activity are still in the early stages."

The report was quite critical, and some of the evidence that we have received is also worrying. The Minister for Children and Young People told us:

"The question of disinvestment is a good one and is probably much more tricky to answer because we have not had any specific examples, from the change fund returns, of that happening."—[*Official Report, Finance Committee*, 15 January 2014; c 3547.]

Another example involves the rebalancing of care for older people. Audit Scotland noted in a recent report that the proportion of the health and social care budget for older people that was spent on home care stood at 9.2 per cent in 2010-11 and went down the following year.

I know that there are a lot of positive developments—you have mentioned the early years collaborative twice—but there seem to be quite a few grounds for concern about progress on preventative spending.

John Swinney: I accept that preventative spending remains a work in progress, but it is work that the Government and public authorities have to deliver, because it is the key to the sustainability of public services.

Mr Chisholm's point about home care services is valid. Quality home care services can be delivered at a fraction of the cost of treating somebody in an acute hospital. It is often better for someone to be at home with an appropriate support package than to be in an acute hospital that is inappropriate for their condition. There are clearly circumstances in which people need acute hospital care but, as we know from the data, there are many examples in which people do not require to be in an acute hospital.

The Government's focus on health and social care integration is crucial—particularly in the next couple of years, which will be crucial in making sure that a discernible shift in the balance of care is delivered—because it is fundamental to guaranteeing the sustainability of our public services.

14:30

Malcolm Chisholm: You characterised the effectiveness of preventative spending as being that it reduces the long-term demand for public services. However, with older people, it is about delivering services in a different way.

John Swinney: Another aspect is reducing the demand. We could describe the number of emergency admissions to acute hospitals as a demand for public services, and I want to reduce that number. That will involve making sure that older people are better supported in their homes to avoid the things that inevitably result in emergency call-outs and admission to emergency care. If we avoid that by having in place better support services, we will ultimately reduce the demand that we face for the very expensive elements of accident and emergency care.

Malcolm Chisholm: The final issue that I will ask about is capital expenditure and borrowing, although a lot of that has been covered, so I probably do not need to take too long. Will you definitely use the £304 million of borrowing for next year, or have you not finally decided?

John Swinney: The capital programme is based on procuring £304 million of borrowing. My point earlier was a sort of good housekeeping point that we will get round to procuring that only

when we absolutely require it. We will have to be going some not to require £304 million of borrowing, so my plan is to borrow that, but we will procure it only at the moments in the financial year when we judge it to be required.

Malcolm Chisholm: Have you made decisions about resource-to-capital switches for the next financial year?

John Swinney: There will be some resource-to-capital transfers, but they will be less significant than they have been in previous years.

Malcolm Chisholm: You flagged up £125 million for housing, £30 million of which is for the help to buy scheme. More generally, are you trying to spread the capital as broadly as is required? I have spoken before about housing being the number 1 priority for capital investment, and perhaps some of what we heard in our group discussions this morning would justify that. Do you think in those terms, or do you just think that you have to balance the money between housing and other areas? You are aiming for and will probably meet the target that you have set for 30,000 social rented homes over five years but, now that you have access to extra capital, you have an opportunity to accelerate that.

John Swinney: In 2010, I started the reconfiguration of the capital programme because of the changes that the UK Government made to our trajectory of capital expenditure. Until 2010, we were broadly on a capital DEL budget of about £3.5 billion every year. In 2011-12, we went down to £2.5 billion, so we were about £1 billion down.

When we had a range of programmes that were expected to be fulfilled, to have that amount coming out every year created a difficulty for the Government. At that stage, I opted to do two things. First, I took a number of projects out of the DEL capital programme and put them into the NPD programme through the Scottish Futures Trust. We have gone through the issues of timescale and preparation for all that. The programme is now much more satisfactory, but it covers only about £3.5 billion of capital expenditure in a six or seven-year period.

Secondly, I had to fundamentally reconfigure the Government's capital programme. I opted to deliver a number of strategic priorities to give them the first call on the budget. They were the new Queensferry crossing, the south Glasgow hospitals project, investment in Scottish Water, investment in our school estate and an allocation to local government.

Once I had established those five priorities, they were signed off by the Cabinet with the view that, at that moment in 2010, they were the key priorities that we had to deploy. I then assessed the legal commitments that the Government had

made and I have fulfilled all the legal commitments to which we were contractually obliged. I made an allocation for maintenance, which is an essential part of our capital programme every year. After I had done all that, there was broadly nothing left in 2010, which is why we had such strain in the housing budget to begin with.

Each year since then, more headroom has opened up. As the Queensferry crossing and south Glasgow hospitals costs begin to decline, more opportunity opens up for us to invest in housing. I have been criticised for not giving a clear steer on housing at the outset of financial years, and I accept that. However, I have taken every available opportunity to expand housing expenditure. It was not that I thought that housing was not a priority; it was just that I had no capital to allocate to it. Over time, we have expanded the capital resource that is available for that purpose. Fundamentally, I accept Mr Chisholm's proposition that housing has an emphatic benefit for capital expenditure and an economic impact around the country.

John Mason: We have touched on a lot of these subjects before, but I would like to follow up a few points. A lot has been written, we have read a lot and a lot has been said about the impact that land and buildings transaction tax might have on the number of sales and about a lack of historical data, although such data does not guarantee what the future will hold. Do we just have to accept that there will be swings and roundabouts with LBTT and that we will get a bit more than we were expecting in some years and a bit less in other years? If so, how do we smooth that out?

John Swinney: I hope that the volatility will be kept to a minimum, if I can put it like that. We could smooth it out only by establishing a cash reserve that we replenished when we got more than we bargained for and which we dipped into when we got less than we expected, or by reducing our programmed spend. Those would be our only two options. I have said repeatedly to Parliament that, if we take on more responsibility for financial measures, I want us to be able to affect the financial and economic conditions as a consequence of our being able to exercise economic powers.

John Mason: If more houses are sold next year than we expected to be sold and you got a bit more LBTT than you were expecting, would you put that aside? You might be under pressure to spend it the next day.

John Swinney: I am sure that I would be under pressure to spend it the next day—there would be no shortage of people advocating that I spend it the next day. However, we must take forward a disciplined, prudential framework. We need to be mindful that there may be years in which we

experience further financial pressure, and that consideration will be very much in my mind.

John Mason: The smaller tax is landfill tax, which we have not spent an awful lot of time on today. The assumption is that the rates that we charge will be very close to the Westminster rates and that there will not be refuse tourism or whatever the term happens to be. How guaranteed are the Westminster rates? How at risk are we that Westminster might do something on landfill tax that would put us at a disadvantage?

John Swinney: The Westminster rates for 2015-16 are already legislated for, so there is no short-term threat to the rates that I have set. However, the UK Government could change those rates, and there is such a concept as waste tourism.

John Mason: That is what I was thinking of.

John Swinney: It was a novelty to me, but heigh-ho. We must be mindful of that. We have set rates to avoid that, because it would be unnecessary to compete either actively or inadvertently on the issue. However, we must not lose any ability to act in that respect. If the UK Government was to change, I would have to reflect on the matter in due course.

John Mason: The committee has over a considerable period examined the block grant adjustment, and I am extremely disappointed that we seem to have got no further forward. I gather that you have a letter—you told us about it—but I understand that it suggests a settlement for only one year, and we do not even have that settlement yet. The intention was always to put some permanent mechanism in place for the future. Is that a risk to next year's or the following year's budget, because you have now had to say what your budget is?

John Swinney: Of course it is. I pressed the Treasury hard to produce an outcome to the issue to enable me, in good faith—not just in good faith, but with eyes wide open—to set out my budget to Parliament. I had to set out the budget to Parliament in a fashion that was not my preferred one. However, my duty to Parliament supersedes the requirement to reach some form of agreement with the Treasury. I judged that Parliament had to hear from me what tax I estimated would be generated, and I could not wait for the Treasury to come up with a block grant adjustment to complete that side of the picture.

I am very disappointed that that has been going on. It has been completely unnecessary. If I had held the Treasury to the letter of the command paper, that would have required a one-off cash adjustment to the block grant of one sum of money, whatever it was, and that would be it—no

revisions, no indexation, no updating, no nothing. That is what the command paper said.

In recognising that I had to move somewhat to get an agreement with the Treasury, I moved to accept indexation. That is not in the way that the Treasury fancied, through tampering with the Barnett formula, but on a proposition that I think is fair and is linked to the gross domestic product deflator.

This is a salutary warning to us all about some of the practical implications of the Smith commission's recommendations. We might be scrapping here over 1.5 per cent of the Scottish budget, but the matter will be much more significant when we are dealing with income tax block grant adjustments and other issues.

Colleagues might hear me banging on about the frustration over such things and about my determination to get a fair outcome for Scotland. That is because I do not want a precedent to be set on the periphery—1.5 per cent of our budget—that will inhibit the block grant adjustment on bigger issues affecting our budget in years to come. Those issues are significant.

I am disappointed with the situation. If I trace it all back, I see that, even if I had stuck to the letter of the command paper, we would not have had an agreement, because the Treasury would have stalled and stalled—as it has done. The Treasury is still stalling, which is unacceptable. The movement that I have put into the process enables indexation of the original amount, so there is no reason why we cannot agree a long-term solution. That is part of what I am considering in my response. We do not require any new data to decide what our indexation method will be.

John Mason: You said that the Smith commission was one of the reasons that were mentioned in the letter that you received for not having a settlement. That makes me wonder whether the issue will keep hanging in the air year by year, until the Smith commission recommendations, or whatever recommendations, are implemented. You can perhaps guide us on the timescale for that, but I assume that, given that the Scottish rate of income tax is coming in over four or five years, even if there is legislation at Westminster in 2015, we are probably talking about the same length of time, so it will be 2020 before all the Smith commission proposals are in place. If that is the case, do we have any idea whether the Treasury will spin this out?

14:45

John Swinney: The timescale for implementing the Smith commission proposals is likely to be of that order. I would be surprised if that happens

before 2020. In his letter, the Chief Secretary to the Treasury says:

“This would also enable us to consider the permanent solution alongside the rest of the package agreed by the Smith Commission. The resulting changes to the Scottish Government’s funding arrangements are likely to be substantial and we do not think it would necessarily be helpful to set a precedent for fully devolved taxes at this time”.

You will understand my unease about the terminology that is used in the letter and why I am taking my time to consider it carefully, because there are big issues at stake to do with the future funding of the public finances of Scotland.

John Mason: The idea was that, if we got control of a tax and we grew the economy, we would get the benefits of that. If the adjustment is made year by year, and if we grow the economy and there are more housing transactions, the tax from that will go up but Westminster will be able to keep taking.

John Swinney: My understanding of the concept of the devolution of land and buildings transaction tax was that the whole tax was being devolved to Scotland and that we could decide what we did with it. We could have chosen to say, “Right, we’ll not have that tax,” and we could have dealt with the £450 million consequence in the public finances, but we wanted to put in place a tax that was designed to suit our needs, and we have done exactly that.

The nature of the block grant adjustment was that, in the transfer of the tax to Scotland, an element of UK revenues that supported our public spending would be switched off and there would be a one-off adjustment. Reluctantly, I have accepted a degree of indexation.

Let us say that my estimate was £450 million and we generated £500 million. We ought to be able to keep that £50 million and do with it what we want—spend it on public services or put it in the cash reserve. In our discussions with the Treasury, it emerged that it has included in the block grant adjustment mechanism what has been called a constraining factor, whereby over a period that—if my memory serves me right—extends to about 2029 or 2030, we would try to work out what we could reasonably expect to generate through the devolution of the tax, such that the UK and Scotland would be no worse off as a consequence. We would work back to establish the block grant adjustment from that.

In my view, that totally defeats the point of devolving the tax. If we are devolving the tax, it should be up to us to make a go of it and, if we do not get the revenues that we expect, we should live with the consequences of that. However, the Treasury has been trying to constrain the potential gain that we could make by arguing for a particular

block grant adjustment to be made. I have totally resisted that, because it fundamentally undermines the devolution of the power and responsibility.

John Mason: Thank you. I am concerned as well.

At the time we were considering the Revenue Scotland and Tax Powers Bill, the initial quote for running Revenue Scotland was £16.7 million, whereas HMRC quoted a figure of £22.3 million—in other words, a difference of £5.6 million. Over time, various adjustments have been made to those figures, and extra costs have been added to the £16.7 million. Is it your understanding that those costs would also have been added to the HMRC figure?

John Swinney: What I am confident about is that, on the basis of a like-for-like comparison between what Revenue Scotland said would be done and what HMRC said would be done, the financial relationship between the two remains broadly similar to what it was at the time.

What we have done is look at additional functions that HMRC never quoted for and was never asked to do. Having Revenue Scotland undertake those functions has incurred further costs. However, I am satisfied that those costs are required, and they will also help us to address some of the issues that the convener raised with me about the collection of tax.

John Mason: We have heard that, whatever we borrow and invest, a maximum of 5 per cent of the budget will be used to repay it. Is that a solid figure? Is it the case that it would not be affected by inflation, interest rates and so on, because there would be fixed rates and suchlike?

John Swinney: The size of the facility is influenced by the size of our total DEL budget. If our DEL budget were to shrink or expand from any given time at which I present an estimate to Parliament, the size of the pot could be influenced. However, that is our estimate of the liability that we will have to service, based on entrenched and embedded interest rates.

John Mason: Thanks for that.

In the Equal Opportunities Committee, which you have already met to discuss the budget, we discussed how closely outcomes can be linked to the pound that we spend this year. If we are serious about outcomes-based budgeting, we have to admit that there is not always a clear link between investment and outcomes. Clearly, the number of nurses matches the number of pounds, but it will be difficult to prove that a particular pound spent this year will have an effect on someone’s health in 10 years’ time.

John Swinney: I can give you a practical example that will help. At the most recent meeting of the convention of the Highlands and Islands, the preceding meeting of which took place earlier this year in this very room, the chairman of Scottish Natural Heritage, Ian Ross, said to me was that he wanted Scottish Natural Heritage to have an input into the agenda of the convention of the Highlands and Islands with regard to how it, as Scotland's natural environment quango, could help the health and wellbeing of our population. He is absolutely right, of course: my health and wellbeing have been remarkably improved by having spent some time today on the top deck of a Caledonian MacBrayne ferry and having had a small opportunity to wander around Arran. However, it is a serious point. Although there is an opportunity for a variety of different areas of public activity and intervention to have a positive benefit on people's health and wellbeing, we would never contemplate putting the SNH budget into the framework of our health and wellbeing budget.

At the heart of the Scotland Performs initiative, therefore, is an attempt to shift more and more of our assessment and debate on to the issue of what we are achieving. I know that, in parliamentary scrutiny terms, that is difficult to do. The budget scrutiny process and the work of the Finance Committee are driven by how much we are spending, which is a significant point of analysis, but I am as interested in leading a debate about what we are achieving, what impact we are having, what difference we are making and whether there is a better way to spend the money to get a better impact.

We are in the fortunate position of having a national performance framework that is supported and endorsed by the Government, local government and our public bodies. The entire public sector in Scotland believes that that is the best policy-making and performance framework within which we should operate. The more that we can focus on the outcomes that we are achieving and the impact that we are having, the more effective our decisions will be in the process.

John Mason: As you have said, we are in Arran today. The workshop group that I was on this morning raised the issue of the road equivalent tariff, which was broadly welcomed, but there were some questions about the capacity of the ferries to manage the traffic, especially in the summer season, and whether freight should be included as part of RET. What is your comment on that?

John Swinney: Our pilot exercises for rolling out RET in other island groups, and the lessons that we have learned from the process, have informed the way in which RET has been rolled out on Arran. Government has a clear obligation to address here. The Government is implementing

the road equivalent tariff not as a transport subsidy but as an economic development measure, and if we implement it on that basis, we also have to take on the obligation of ensuring that we have the capacity to meet the needs of island communities. I am conscious of that from my previous visits to Arran and from the way in which I use the ferry network myself in the summer as a consumer. Access to and the capacity of the ferries are crucial judgments for many of our communities at critical times of the year, and the discussions that Caledonian MacBrayne have with local communities through ferry groups and other forums are important to that discussion about capacity.

John Mason: The two largest parts of the budget are health and local government. Some have told the committee that we spend too much on health and that if we spent a bit less we could boost the economy more, while others say that there is not enough for cancer drugs or scans, so we should put more into the health budget. Are you saying that this year's health budget is the correct amount? How do you decide what that is? We have incremental budgeting in which we just add on or take off 1 per cent, but how do we decide whether the amount that is going into health is the right amount?

John Swinney: It is a product of assessing the demand that we face for public services, particularly health services, and trying to adequately and effectively meet that demand within the available resources. I have presided over certain budgets that we have not talked about today—although we certainly have discussed them in previous years—in which I have cut money, not given more, and I would vociferously argue that, despite the reductions that I implemented in those elements of public expenditure, we delivered as good, if not better, outcomes.

Spending money is not necessarily the only guarantee of delivering the best outcomes; leadership, policy clarity, management and operational control are all key considerations in the delivery of effective public services. For example, Mr McMahon asked me about the administration costs of the Scottish welfare fund, and it is pretty fair to relate that £5 million to the fund's £33 million budget as a test of whether the fund is being operated as efficiently as it could be.

As far as the health service is concerned, we can see a tangible crystallisation of demand, because it presents itself in a variety of different areas at different connection points within the health service, be that in a general practice or in an accident and emergency department. We must ensure that we have in place the types of services

and support that can meet the requirements of individuals.

The Convener: That has exhausted the committee's questions, but I have one or two myself to round up the session.

I have to say that I was tempted to answer the RET capacity question myself. We are going out to tender next week for a new vessel that will carry 130 cars and which will hopefully be in service within two or three years. A yard will be selected for that in March.

John Swinney: You are better at answering these questions than me, convener.

The Convener: That is just because we discuss these things at the Isle of Arran ferry committee, and we met a member of the design team last month.

I have a couple of questions about preventative spend, because it has been a real issue for the committee for a number of years and it would be remiss of me not to mention it. I was about to raise an issue with regard to North Ayrshire Council—of course, Arran is part of the council's area—but I need to find a specific quote. I was sitting staring at it for ages, but as soon as I wanted to ask about it, it seemed to disappear before my eyes.

15:00

In evidence to the Finance Committee, North Ayrshire Council said that North Ayrshire community planning partnership was

"now on the precipice of the next step"—[*Official Report, Finance Committee*, 8 October 2014; c 44.],

which was somewhat underwhelming. On Thursday, Audit Scotland published a report entitled, "Community planning: Turning ambition into action". In the second paragraph on page 27 in part 3, the report states:

"The current pace and scale of activity is contributing to an improved focus on prevention but is unlikely to deliver the radical change in the design and delivery of public services called for by the Christie Commission."

There is an element of frustration within the committee about that delivery. What can we do to try to move it forward? We do not want to be taking evidence a year from now and getting the same sort of information—"Oh aye, we are still having discussions" and all that kind of stuff. There is a real wish within the committee to see action in that area if possible.

John Swinney: I share the committee's perspective on that question, convener. I hope that the committee has heard from me, in all the appearances that I have made before it, that there is a consistent direction of travel in that respect.

When I was here two years ago, I suspect that I would have said that I was very frustrated by the pace of progress. Last year, I would have said that I was less frustrated; this year, I am probably a bit less frustrated, but I would still like the pace to be faster.

I use every available opportunity that I have to press for further decisive action on this matter. For example, last Thursday evening, I addressed the Scottish leaders forum, which is a gathering of many public sector leaders in the country, and anyone who was present would have heard me deliver a very clear and emphatic requirement that there must be more progress.

The First Minister has asked me as part of my responsibilities as Deputy First Minister to ensure that, on a number of key themes, the Government's agenda is pursued vigorously. Those key themes are promoting economic growth, tackling inequality and reforming our public services, and last week we had a discussion with a number of my Cabinet colleagues across Government about how we reinforce that work at local level.

Part of the challenge is that the Government does not control all the levers. We can direct health boards and public authorities, but we cannot direct local authorities. Colleagues will all be familiar with the debate, but we are facing pressure to give much more discretion to local communities while at the same time being pressed to take decisive action to make things happen. The two things are not mutually compatible.

What we have tried to do, and will continue to do, is to create a coalition of public organisations that are determined to reform public services in the fashion that I have described. However, the reform must have more pace and impetus, and we will look within Government at all possible levers that are available to us to ensure that that is the case.

We have tended not to look at sanctions; indeed, we have avoided them. I do not think that the sanctions culture is particularly effective in this respect, but we will look at all possible options to advance the argument.

The Convener: The audience will be relieved to know that I will now make my final point, which is about capital departmental expenditure limit budgets. There is quite a significant difference in some of the capital spends. We heard about housing, and I notice that there is a 540 per cent real-terms increase in DEL capital because of an increase in spend from £4 million to £26 million for the new national performance and national para-sports centres. I am pleased to mention that funding, because £6 million of it is going to Largs in my constituency.

However, if we look at health, we see the biggest decrease. There is a 149 per cent increase in culture; a 137 per cent increase in justice, which is explained by additional prison building; 15 per cent more for infrastructure; and 13.3 per cent more for the rural budget. That is all welcome, but the decrease in the health budget is 24.4 per cent. I understand that the health capital budget is falling in real terms because a number of health infrastructure projects are planned to be delivered via the non-profit-distributing finance model, which is not included in the DEL capital budget, but does that account for all the decrease in health spend? If not, what is the cause of that decrease?

John Swinney: The health capital budget has been significantly higher than its trend performance has been for a number of years because of the south Glasgow hospital project. Because of that project, the health capital budget was up at £480 million in 2011-12 and £453 million in 2012-13 but, as we can all see, the hospital is now very near completion and occupation.

The best way to look at this is to examine the total capital expenditure that has been put in place over our DEL capital budget and our NPD and hub activity. In 2014-15, that expenditure totalled £376 million, and in 2015-16, it will total £575 million. That almost £200 million increase is because projects such as the Edinburgh sick kids hospital and the Dumfries and Galloway royal infirmary will begin to come on stream in the NPD programme at the start of the year. We need to look at all of those things in the round, and that is the mechanism that the Government has decided to use to fund those projects. NPD projects are suitable for large single-issue capital projects, and those projects fit that category.

The Convener: There is also £47 million for Ayrshire central mental health hospital.

John Swinney: I think we must be building everything in Ayrshire nowadays, convener, given the way that we are going. It must be due to the power and effectiveness of the local representation.

The Convener: That has got to be it.

John Swinney: That goes without saying.

The Convener: Finally, I want to talk about capital receipts. The disposal of capital assets was an issue, and we asked the Government to provide a breakdown of its figures. We got a breakdown for 2014-15; the estimated capital receipts for 2015-16 are £63 million, but no breakdown has been provided for those. I am just wondering why that is the case.

John Swinney: We can certainly provide a breakdown to the committee. I will do that in writing, convener.

The Convener: Thank you very much.

Thank you for your evidence. Would you like to add anything further?

John Swinney: No, convener.

The Convener: We will have a five-minute break, after which, I am afraid to say, Mr Swinney will be back in the hot seat for the next item on our agenda.

15:08

Meeting suspended.

15:16

On resuming—

Subordinate Legislation

Budget (Scotland) Act 2014 Amendment Order 2014 [Draft]

The Convener: Item 3 is consideration of the draft order that provides for the 2014-15 autumn budget revision. Before we come to the motion seeking our approval at agenda item 4, we will have an evidence session on the order. I invite the cabinet secretary to make an opening statement explaining the order and remind him not to move the motion at this point.

John Swinney: Thank you, convener. This is the first of two planned routine in-year budget revisions. The second and final revision will be the spring budget revision, which will be laid in the early part of 2015.

As in previous years, a pattern of authorising revisions to the budget in the autumn and in the spring is required, as the detail of our spending plans inevitably changes from when the budget act is approved. The changes that are proposed in the autumn budget revision result in a net increase in the approved budget of £972.9 million, from £35,458.5 million to £36,431.4 million.

The material adjustments to the DEL budget react to the changes that were announced to Parliament at stage 3 of the 2014-15 budget bill on 5 February, the allocation of further additions that were announced to Parliament on 1 April and in-year additions reflecting ministerial decisions. In addition, the autumn budget revision reflects Whitehall transfers and HM Treasury allocations in respect of localised council tax support, the single fraud investigation service, capital funding for the Shetland Islands to support infrastructure development, support for residents of Blane field with the clean-up of contaminated land and support for the Lockerbie-Syracuse Trust.

It is normal practice for the autumn budget revision to reflect a technical budget adjustment arising from updated assessments of the NHS and teachers' pension schemes. The latest actuarial assessments—based on the most recent HM Treasury discount rates, increases to employee pension contributions and a reduction in interest on scheme liabilities—record a net overall increase in annually managed expenditure of £901.9 million. I reassure committee members that that technical change to the pension scheme budgets has no adverse impact on other Scottish Government budgets. HM Treasury underwrites the pension liabilities directly through the AME process.

There are a few significant transfers between portfolios which occur annually, primarily between health and education and between justice and health. Those budgets are initially allocated to the portfolio where ministerial responsibility and policy decisions are taken. The budgets are then transferred, in a transparent manner, to the portfolio where the spending occurs at the in-year budget revision. The significant transfers of that nature are the transfer of £50 million from health and wellbeing to further education, for nursing and midwifery training, and the transfer of £30.4 million from justice to health and wellbeing, in respect of drug treatment and prevention.

Members may wish to be reminded that, for the purposes of the Scottish budget, only spending that scores as capital in the Scottish Government's or direct funded bodies' annual accounts is shown as capital, which means that capital grants are shown as operating in the document. The full capital picture is shown in table 1.7 of the supporting document.

No further new announcements or initiatives appear in the figures that the committee is scrutinising today—the revisions reflect decisions or announcements that have already been made. The brief guide to the autumn budget revision that my officials have prepared sets out the background to and details of the main changes proposed. I hope that members have found that guide helpful.

As I mentioned, the 2014-15 spring budget revision will be laid before Parliament in early 2015. In line with past years, that budget revision will be informed by on-going in-year budget monitoring. I will update the committee at that point on the planned resource to capital budget transfer for 2014-15. The spring budget revision will include an updated presentation of the Scottish Government's portfolios as announced by the First Minister on 21 November.

I will be happy to answer any question on the detail of the autumn budget revision.

The Convener: Thank you for that comprehensive opening statement.

The large technical adjustment of £901.9 million is highly significant and you have explained the requirement for that. Can you give us a wee bit more information on the long-term implications for the Scottish budget if the UK Government, for whatever reason, decides to squeeze the departmental expenditure limit, which could feed through to the Barnett formula?

John Swinney: There is a strategic choice on the manner in which any further fiscal consolidation takes its course. If the UK Government were to apply greater pressure to annually managed expenditure than to DEL, that

would have less effect under current arrangements on the resources available to the Scottish Government than if it were the other way round, whereby DEL took pressure and AME did not. That is a balance of judgment that the UK Government has to arrive at in its future financial planning.

You mentioned the significant increase in annually managed expenditure on pension provision. That is essentially a set of technical changes that have affected the scale of the budget. I am happy to talk the committee through a number of those changes that have had an effect.

First, there has been a change to the discount rate that is set by HM Treasury, which is used to calculate the interest costs on pension scheme liabilities. The reduction in the discount rate increases the opening pension liability, so essentially the opening sum of pension liabilities grows by virtue of the change to the discount rate. Secondly, there have been some changes to the interest rate that would be viewed to be utilised as part of the calculation of the pensions liability. Thirdly, there has been an increase in forecast income, which has arisen out of the fact that employees' pension contributions have increased over the past few years.

Those are the three factors that have driven most of the dynamic of the change on the pension scheme liabilities. I would caution the committee against viewing those as a direct cash issue. Rather, they are an assessment of liabilities, which has changed as a consequence of the changes that the UK Government has made to the methodologies.

The Convener: Thank you.

The committee stated in its report on the draft budget for 2013-14 that it would

"welcome greater clarity in future draft budget documents in the presentation of proposals for resource to capital switches including reporting on the progress made in achieving these transfers."

The Scottish Government responded:

"We propose it is most appropriate to report on these aspects as part of the in-year revisions and the outturn report."

However, the autumn budget revision does not cover the 2014-15 plans for resource to capital transfers. Is it your intention to present those in the spring budget revision?

John Swinney: I will certainly give consideration to that point. As we discussed in the previous evidence session, we constantly monitor the issue of borrowing. Similarly, we continue to monitor capital requirements during the year, so

we are constantly reviewing the mechanisms that can support our capital programme.

I will certainly endeavour to report on those questions at the spring budget revision. The monitoring of all the issues that are inherent in the calculation of the resource to capital transfers will remain active in the interim.

The Convener: In your opening statement, you talked about the transfer of some £50 million from health and wellbeing to education and lifelong learning for nursing and midwifery education and the transfer of £30.4 million from justice to health and wellbeing for drug treatment and prevention. A transfer from health and wellbeing to education and lifelong learning for nursing and midwifery education has been in the ABR in each year since 2008-09. Given that that is a recurrent transfer, why has it not been incorporated into the draft budget plans at the outset of the budget process every year?

John Swinney: That is essentially because, in the interests of transparency, we are trying to maintain a clear line of accountability to where the policy decisions are taken. For example, judgments about midwifery education are taken in the health portfolio, so the policy responsibility rests in that portfolio, and the resource is transferred to another portfolio to be delivered. We believe that establishing that degree of clarity on the policy-making responsibility assists members of the public in looking at where the responsibility for decision making sits.

The Convener: Do you not think that it seems confusing? For seven years in a row, those budgets have consistently shifted from one portfolio into another. Surely that adds to rather than diminishes the public's confusion. It also distorts the budget headings in the draft budget to an extent, as people would consider that there is more in one particular budget portfolio than there is in reality when it comes to delivering the spend.

John Swinney: We can look at those things in different ways, convener. The key point for me is that the current arrangement recognises where policy responsibility rests. Essentially, it enables decisions to be taken on that basis and those decisions to be clearly understood by members of the public.

The Convener: Perhaps we will have to agree to disagree on that particular issue.

On education and lifelong learning, why is additional funding of £5.1 million required for the curriculum for excellence as well as additional funding of £5 million for the one-plus-two languages policy and an extra £2 million for supply teachers' pay? Will those funds be ring fenced for the stated purposes?

John Swinney: The transfer for the curriculum for excellence reflects our commitment to give further funding to local authorities to support the implementation of the new national qualifications. Some of that is to do with more time for teachers in schools to play their part in delivering the new qualifications and some of it is to deliver school-level events to improve parents' understanding of the new qualifications. There is also support for young people to learn two languages, which is part of one of the other transfers.

Through the machinery of the Scottish negotiating committee for teachers, we came to an agreement that the Government would make a contribution to pay for an enhancement of the pay and conditions of supply teachers.

All those commitments were given to local government for specific purposes. Some of them are more directly attributable or required than others. The enhancement to supply teachers' pay is very direct, so it does not require a ring fence. The others will have been added to the local government settlement with particular purposes in mind.

The Convener: Thank you. I now open out the session to colleagues round the table.

15:30

Malcolm Chisholm: Believe it or not, the convener has covered the four areas that I was going to ask about, but I will manage supplementary questions on all four.

On the pensions, will the increase of nearly £1 billion feed through into subsequent years, or is it not a consequence of the adjustment?

John Swinney: Essentially, it is largely a calculation of the theoretical pension liability that is driving those changes. I am loth to tell Mr Chisholm what will happen in a subsequent year, because I seem to remember being here a couple of years ago and describing a £900 million change as extraordinary in size, and here we have another one. As we know, public sector pensions have been put through a greater degree of scrutiny by the UK Government in recent years, and we are now seeing the products of that.

Malcolm Chisholm: It sounds as if it probably will feed through. You said that it is not a cash issue, and I merely make the comment, which you may want to respond to, that in all the heated controversy about what proportion of the budget is covered under the Smith proposals it seems ludicrous to include something like pensions as part of the Scottish budget, given that that element is not in the same order as the DEL budget or other elements of the AME budget.

John Swinney: However, it is part of our budget overall.

Malcolm Chisholm: Yes, but it is a bit misleading. Anyway, that argument will obviously continue, but not today.

You are going to tell us about resource to capital transfer at the spring budget revision, but in the draft budget you estimated that there will be a £165 million resource to capital transfer. Is that still the order that we are talking about or has there been significant change?

John Swinney: I think that it will be something of that order.

Malcolm Chisholm: It is interesting that the transfers from one budget head to another have been going on for six or seven years. I hear what you say about that, and there are lots of different ways of looking at the issue, but the observation has been made that some of those examples might seem to inflate the health budget. However, I would like to pick up on the example that goes the other way round. The transfer from justice to health and wellbeing in respect of drug treatment and prevention is £30 million. I suppose that it is a bit of an old hobby-horse of mine, but would one logical conclusion not be to ask why drug treatment and prevention is not in the health budget in the first place? Is that the issue that you are raising?

John Swinney: The simple reason is that policy responsibility for drugs sits within the justice portfolio.

Malcolm Chisholm: I suppose that that is the point that I am making. I know that it is not your decision, but I have always thought that it was a bizarre decision made in 1999.

John Swinney: I am happy to explore those questions if they are causing the committee concern. The principle that is applied is one driven by policy responsibility.

Malcolm Chisholm: I understand the rationale for it.

You said that supply teachers' pay does not require a ring fence, but what is to prevent a local authority from just spending that £2 million on something else? I know that there are problems with supply teachers' pay, because I have been approached about it.

John Swinney: That is for an enhancement to supply teachers' pay and conditions. In theory, Mr Chisholm, you have a point. Local authorities may not have a requirement for supply teachers, but it is pretty commonplace that—

Malcolm Chisholm: Has it been renegotiated?

John Swinney: Yes—it is a renegotiation. I suppose that Mr Chisholm's point is valid if a local authority decides to take the money and not have any supply teaching, but that is an unlikely combination.

Malcolm Chisholm: That is fine—thanks.

Gavin Brown: The additional funding sources for 2014-15 seem to be £57.9 million, according to the Scottish Parliament information centre paper. It is classed as £53.3 million of Barnett consequential from UK fiscal events and £4.6 million that is described as a budget exchange mechanism underspend from 2013-14. I have not checked out the figure, but for some reason I thought that the underspend was a bit bigger than that. I just wonder where the £4.6 million figure comes from.

John Swinney: I suspect that that is probably the difference between the planned budget exchange carryover and what actually materialised. It is just the marginal difference between the planned amount that we factored into our arrangements and what actually materialised.

Gavin Brown: You said that the spring budget revision will have different portfolios, which I guess will be based on announcements from last week. Is there much re-engineering to do, or is it a fairly straightforward piece of work?

John Swinney: There will be some re-engineering. The portfolio that Roseanna Cunningham holds as Cabinet Secretary for Fair Work, Skills and Training is a development of the portfolio that Angela Constance previously held. Sport issues will go back into the health and wellbeing portfolio, and Mr Neil's portfolio is essentially a new creation that will take housing and regeneration out of infrastructure, investment and cities, and will take on some of the responsibilities that I formerly held. The local government budget was always in a separate chapter and under a separate budget heading, but third-sector budgets have gone into Mr Neil's portfolio as well.

Gavin Brown: On page 80 of the budget revision, in tiny writing, there is a transfer into local government from education and lifelong learning for education and childcare capital costs. The sum involved is £23.5 million—you will see it towards the bottom of the first table. In the papers that I have read, that is described as an initial investment for capital for early years. Is that the final amount for 2014-15 or do you think that there will be more? There will obviously be some for 2015-16, but an update on that would be helpful.

John Swinney: The total capital sum has been agreed with local government for early learning and childcare capital costs. I cannot recall whether there is any more going in in 2014-15 or whether

some of it is going in in 2015-16—I would have to confirm that. As part of the budget agreement this year, we reached agreement with local government on the costs of free school meals and childcare, so all of that is done and accounted for, but I cannot recall whether there is more to be paid in 2014-15 than is shown in that document. I will confirm that and get back to the committee.

Gavin Brown: That is all—thank you.

The Convener: That concludes questions from the committee.

Item 4 is the debate on the motion. I invite the cabinet secretary formally to move motion S4M-11716.

Motion moved,

That the Finance Committee recommends that the Budget (Scotland) Act 2014 Amendment Order 2014 [draft] be approved.—[*John Swinney.*]

Motion agreed to.

The Convener: The committee will now publish a short report to the Parliament, setting out its decision on the order. I thank everyone who came along today, both those who participated in the workshops and those who came along to attend our evidence session, not least the Deputy First Minister and members of the committee.

Meeting closed at 15:38.

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