OFFICIAL REPORT
AITHISG OIFIGEIL

Finance and Constitution Committee

Monday 16 January 2017

Session 5

The Scottish Parliament
Pàrlamaid na h-Alba

Monday 16 January 2017

CONTENTS

Col.

DECISION ON TAKING BUSINESS IN PRIVATE 1
DRAFT BUDGET 2017-18 2

FINANCE AND CONSTITUTION COMMITTEE
2nd Meeting 2017, Session 5

CONVENER

*Bruce Crawford (Stirling) (SNP)

DEPUTY CONVENER

*Adam Tomkins (Glasgow) (Con)

COMMITTEE MEMBERS

*Neil Bibby (West Scotland) (Lab)
*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)
*Ash Denham (Edinburgh Eastern) (SNP)
*Murdo Fraser (Mid Scotland and Fife) (Con)
*Patrick Harvie (Glasgow) (Green)
*James Kelly (Glasgow) (Lab)
*Dean Lockhart (Mid Scotland and Fife) (Con)
*Ivan McKee (Glasgow Provan) (SNP)
*Maree Todd (Highlands and Islands) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Derek Mackay (Cabinet Secretary for Finance and the Constitution)
Graham Owenson (Scottish Government)
Andrew Watson (Scottish Government)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Finance and Constitution Committee

Monday 16 January 2017

[The Convener opened the meeting at 16:00]

Decision on Taking Business in Private

The Convener (Bruce Crawford): Good afternoon, colleagues, and welcome to the second meeting in 2017 of the Finance and Constitution Committee. As usual, I remind members to put their phones into a mode that means we cannot hear them and they will not interfere with proceedings.

Agenda item 1 is a decision on whether to consider our draft report on the draft budget 2017-18 in private at future meetings. Are members agreed?

Members *indicated agreement.*

Draft Budget 2017-18

16:00

The Convener: Item 2 is evidence on the Scottish Government's draft budget 2017-18 from Derek Mackay, the Cabinet Secretary for Finance and the Constitution. At last week's meeting, we addressed the revenue side of the draft budget, in terms of taxation and so on. Today, we will focus on the Government's spending plans for the next financial year. Mr Mackay is joined by Scottish Government officials Andrew Watson, who is the deputy director for financial strategy; Scott Mackay, who is the acting deputy director for financial programme management; and Graham Owenson, who is the head of local government finance. I welcome our witnesses to the meeting and invite the cabinet secretary to make a short opening statement if he wishes.

The Cabinet Secretary for Finance and the Constitution (Derek Mackay): Thank you, convener. I welcome the opportunity to discuss with the committee the spending plans that are set out in the Scottish Government's draft budget 2017-18. I am also happy to cover some of the questions that you have received from members of the public on the budget, including on our tax proposals, building on last Wednesday's helpful evidence session.

The Government's spending plans are focused on offering stability now to our economy, community and public services and on the promotion of inclusive economic growth over the long term. Our plans have been framed by wider economic and political factors with which the committee will be familiar, not the least of which are the emerging implications of the European Union referendum outcome and the continuing constraint that the Chancellor of the Exchequer is applying to public finances, and by the programme for government that the First Minister set out last autumn. We remain firmly committed to that programme because we believe that it sets out a positive vision for Scotland.

Our spending plans confirm the funding that is needed to make progress on key commitments such as those on the economy, on educational attainment, on the early years, on health, on infrastructure and on climate change. We are taking a strategic approach to the economy, supported by our £500 million Scottish growth scheme, and are maintaining investment in higher and further education, providing funding for our city deals and introducing a range of interventions that are designed to support innovation, internationalisation and entrepreneurship, such as funding for the new innovation and investment hubs.

The budget proposes to increase the planned funding for 2017-18 for targeted educational attainment measures to £170 million, and it provides initial funding of £60 million to support the expansion of early learning and childcare by 2021. It proposes a real-terms uplift to the national health service budget, which will provide record funding for the NHS in Scotland and increase funding in key areas such as mental health, primary care, general practitioner services and the integration of health and social care.

The budget provides for key infrastructure projects across our roads and transport programme as well as in relation to public services and our ambitious targets for affordable housing and digital infrastructure. It will also help us to address climate change through the national priority status that we have attached to energy efficiency. It provides strong support for areas of front-line delivery, such as through real-terms protection of the front-line police budget, and a substantial funding package for local authorities' services. We will also take the crucial next steps to develop a devolved social security system that is based on dignity and respect while we continue to do all that we can to mitigate the worst effects of the United Kingdom Government's welfare reform.

Cabinet secretary colleagues and stakeholders have been giving evidence to subject committees on those matters and on other spending proposals that each portfolio has included in the budget. As the committee will know, portfolio ministers have lead responsibility for the planning and delivery of expenditure in their own areas. I hope that the evidence that they have provided to the Parliament gives much of the detail and has been helpful. However, I am happy to add my own perspective on the strategic direction that drives the proposals where that would be helpful.

In presenting our spending plans, we continue to be guided by the Christie commission's recommendations on the future delivery of public services, including on the continuing need to invest in preventative activities under the national performance framework.

I published alongside the draft budget updated material on performance against the Scotland performs indicators that underpin the national performance framework, as well as the public sector pay policy for 2017-18, the annual equality budget statement and the carbon assessment of the budget.

I wish to put on record again my willingness to engage with all members of the Parliament to build support for my tax and spending proposals, and I value the contribution that this committee will make in that process through your scrutiny of the Government's plans and your recommendations.

The Convener: Thank you for your opening statement. Last week, we discussed whether we should deal with capital issues as part of the revenue process or as part of the spending process. We decided to deal with them as part of the spending process, and James Kelly will start off on that area of questioning.

James Kelly (Glasgow) (Lab): Good afternoon, cabinet secretary. As the convener said, the initial questions will be on capital spend, and I will focus on the impact of the European system of accounts 2010 ruling. Under the non-profit-distributing model, projects have been financed by a private company that undertakes the construction and covers the costs of that and the interest. The costs are paid off over 25 years after the project has been completed. To clarify, is that assessment correct?

Derek Mackay: Yes, that is correct.

James Kelly: The ESA10 ruling ruled that a number of projects were public sector projects and therefore had to be included on the balance sheet. That meant that capital project costs had to be included as they were incurred, rather than spread over 25 years. Is that interpretation correct?

Derek Mackay: For the construction costs at the time, yes.

James Kelly: As you will be aware, we have sought clarification from you following the evidence session with Scottish Futures Trust representatives. In the answers that you have given, the values that have had to be included up front for the projects that have been deemed, as part of the reclassification, to be public sector projects are £283 million for 2015-16, £398 million for 2016-17 and £234 million for 2017-18 in the budget document. Those figures obviously cover the Aberdeen western peripheral route, the Royal hospital for sick children, the Dumfries and Galloway royal infirmary, the Scottish blood transfusion centre and the Balfour hospital in Orkney—although I know that you have announced that that will not be funded through NPD. Is that correct?

Derek Mackay: That sounds like a fair analysis.

James Kelly: Those costs could be set against the Government's borrowing limits. We have, in effect, nearly £1 billion of costs being set against that borrowing. Would you agree that that results in a loss of spending power of nearly £1 billion?

Derek Mackay: No. It would be more helpful if I set out the context of spending proposals as they relate to borrowing. The figure that I have for the construction costs of those specific stand-alone NPD projects is £234 million in 2017-18. I will make a wider point about the profile of this. Of course, it was part of the toolbox that the

Government had to ensure on-going development of key infrastructure projects. However, the context of our capital spending is that it will allocate around £3.1 billion of conventional capital for major projects and programmes. That continues and it is covered in the budget document. Of course, the cheapest way to deliver capital projects is through our traditional conventional capital departmental expenditure limit, which is what we propose to do.

The additional actions that we want to take and have been taking to support that infrastructure investment would allow us to spend up to the available limit of £450 million in 2017-18 using the Scotland Act 2016 powers. Those will be capital projects that support the economy and there will be allocations during the year. There will be the on-going NPD hub projects, whose classification does not impact in the same way that the classification of stand-alone NPD projects does, and the costs are met from future revenue budgets.

In terms of wider capital, there is also resource accounting and budgeting—RAB—for rail investment. The figure for that is £425 million, and there is a financial transactions budget of around £290 million.

That gives the context of capital spending. As well as that, there are the city deal projects, growth accelerator models and tax increment finance. As we finance those, we use a mixture of our borrowing capacity and revenue to ensure that we can deliver on the capital programme that we have outlined, having already taken into account the budgeting and accountancy exercises, and the issues around reclassification.

James Kelly: That is all very well, cabinet secretary, but none of that gets away from the fact that, as a result of this ESA10 ruling, almost £1 billion has had to be included for 2015-16, 2016-17 and 2017-18 that would previously have been allocated over a 25-year period. That therefore deducts almost £1 billion from the borrowing powers that you would have had at your disposal. What projects will be sacrificed as a result of that?

Derek Mackay: We have answered that question previously. Mr Swinney answered it at the time by talking about the impact on the capital programme. The capital programme is delivered in such as way that it does not have an impact on those projects that we are already committed to. Part of this is an accountancy exercise. Some of the drawdown that is required for capital and for the revenue finance projects comes from revenue so it has not impacted on any projects that we are already committed to and which are in line to be delivered through our capital programme. If it would be helpful, Andrew Watson could cover some of the detail and how it was applied in the previous financial year and this financial year, but I know that it has been confirmed in writing to the committee.

Andrew Watson (Scottish Government): Mr Kelly has effectively described the impact over a number of different years in the budgeting cycle and we have taken different approaches in each of those years in response to the impact of reclassification. The cabinet secretary is correct in that, when the reclassification issue first arose, we had not set capital budgets beyond 2015-16. The task for us has therefore been to absorb the impact of that while setting future plans. The cabinet secretary is therefore right to say that we have not taken committed projects out of the pipeline to offset the impact of the NPD reclassification. It has rather been a case of designing the overall programme to take account of those factors using the borrowing powers as appropriate in 2015-16, and using mechanisms such as budget exchange to look at the profile across the different years.

Derek Mackay: Convener, it is fair to say that, if we had not used the NPD model, those projects would just not have started at that time. The use of that model has allowed those projects to be delivered because they were additional to our available capital at the time.

James Kelly: Who in the Scottish Government is responsible for keeping abreast of accounting rules?

Derek Mackay: The Government is obviously overseen by audit agencies and has monitoring officers as well as the director general of finance.

James Kelly: ESA10 was first drafted in 2010, so was it not an oversight not to see this coming down the line?

Derek Mackay: It is fair to say that the commitment to a number of these projects had already been given and work had begun to deliver this impressive infrastructure programme. The changes came about over time. I do not think that anyone foresaw such substantial changes to the rules but, when they come to light, we comply with them. If we had gone back to scratch, a number of projects would not have been delivered and certainly not in the same timescale. We have adapted our arrangements to ensure that we comply and can continue to deliver a programme of substantial capital investment.

16:15

James Kelly: Last week, you told us that you would borrow "to the max". Is it not the case that you are having to borrow to the max to cover up for the fact that £1 billion has had to be allocated in the budget as a result of the Government not keeping abreast of the new accounting rules?

Derek Mackay: That is not the case. I have outlined a very ambitious programme for capital investment for Scotland, which covers the kind of proposals that members of the Parliament have been asking for, whether they relate to investment in transport, digital infrastructure, housing or energy efficiency. We are ensuring that there continues to be a very ambitious programme of capital investment.

Capital investment has been important not just for improving the infrastructure of our nation but for the private sector in supporting the economy through a challenging period. It is right that that should continue in a prudent way within the financial parameters that we have set out. The draft budget outlines some of the capital spend, which will include £470 million for affordable housing, more than £100 million for digital, more than £100 million for energy efficiency, spend on the beginning of the infrastructure work for early years and childcare, a capital increase for local government—now more than £750 million—and resources for Scottish Water. Some of those capital resources are passed on to authorities such as local authorities. The transport investment includes investment in motorways and a number of projects that have been requested by local communities, and there is also the contribution that we are making to education and the national health service.

As I outlined last week, enhanced borrowing powers have been transferred to Scotland, and we want to use them to support our economy and to invest in infrastructure. We want to use the range of tools that we have in the box to support our society and to continue our highly ambitious capital investment programme.

Maree Todd (Highlands and Islands) (SNP): My understanding is that the change that James Kelly has been asking about is really simply an accounting change that will have little impact on the capital programme. In the letter that you sent to the committee, you said:

> "Had the rules not been changed, and the budget cover not therefore been required for these projects, the cover would have been available to support the overall capital programme. However, again as explained above, the amount of the unitary charges that score against future budgets over the lifetime of the NPD contracts will be lower, which we expect to increase budget cover and therefore spending power in these future years."

Can you clarify the situation?

Derek Mackay: I fully acknowledge that the arrangements are extremely complex. Essentially, it is partly an accountancy exercise to ensure that there is cover in the capital budget for the construction costs of the stand-alone projects. The payment of those costs is made through revenue finance. There is the on-going programme that I have mentioned, which involves the continued deployment of conventional capital. We must ensure that we are compliant with all the necessary European accountancy regulations.

It is partly an accountancy exercise, but the amounts that are spent in terms of conventional capital and the drawdown of revenue for revenue-financed projects will all be actual cash that is actually spent. When it comes to the stand-alone projects that feature in our accounts, we are essentially talking about the construction costs at the time. All of that has been taken into account and included in the financial arrangements that we had for last year, which we informed the previous Finance Committee about, and those for this year.

As far as the further decisions on capital spend are concerned, we will use the overall budget to finance the capital plan. That is explained in the figures that we have set out. I do not know whether Andrew Watson would like to add to the explanation that I set out in my letter. I accept that this is a very complex area, and I hope that there will be no more changes in the European rules; we have certainly been given the sense that there should be a degree of stability on the rules. We have looked at the governance arrangements to ensure that there is appropriate compliance. That has been the case for the hub model, on which we do not face the same issues that we face on the stand-alone projects, but they have all been accounted for and will appear in our budgets as construction costs arise, as will the necessary revenue payments. We have sought to ensure the flexibility of the capital plan, some of the highlights of which I have touched on. Andrew Watson might want to provide further detail.

Andrew Watson: There are three other points to make. An important point is that reclassification has not had an effect on the contracts for the projects in question. The cost of developing and delivering the projects has not changed as a result of reclassification, nor has the timetable for the delivery of the projects.

Secondly, you are right to mention that the revenue payments are being adjusted. In effect, we need to distinguish between the budgeting and accounting treatment on one hand and the contract on the other. Looking at future revenue budgets, we will adjust the amount of revenue budget cover that is required for the project over the life of the project to reflect the fact that, as we go forward, we need to score the maintenance costs but not the up-front construction costs, which are catered for in the up-front capital budgets in the document. That is quite a big impact for us.

Finally, it is worth noting the timing of the issue that has arisen. The key point is that it was not so much the actual rules--which were flagged from 2010—that created the impact, but the 2014 update to the "Manual on Government Deficit and Debt", which enables member states' procuring authorities to interpret what ESA10 means and how it applies to projects. It was that change in the guidance, rather than the original ESA10, that has had an impact on projects.

The Convener: Is that the point that is made in the letter, which refers to August 2014?

Andrew Watson: Yes, it is.

The Convener: I apologise to Maree Todd for interrupting—I just want to make sure that the record is accurate.

Maree Todd: That is fine.

The Convener: Ivan McKee has a supplementary.

Ivan McKee (Glasgow Provan) (SNP): My question is also for clarification. As the cabinet secretary said, we are discussing quite a complicated area. I want to follow up on what James Kelly said earlier with regard to the Scottish Government's understanding and anticipation of the changes that were coming down the line.

My understanding is that ESA10 redefines what the Government can put on the balance sheet for the public sector and what it can put through the non-profit-distributing model and the private sector. That is a fact, and, whether or not it was known about in advance, the reality is that it still needs to be done. Nothing that the Scottish Government did, or anything that it could have done differently, would have made any difference to the impact of what ESA10 determines must be done. The reduction in available capital spend is not a consequence of anything that the Scottish Government did; it is a consequence of ESA10, and what was or was not known before would not have made any difference. In fact, the Government has, by using borrowing powers, been able to mitigate a lot of the effects of the ESA10 change. As you rightly said, delivering projects through CDEL is the cheapest way to operate in the long run. Is that fair comment on the situation?

Derek Mackay: We have had to adjust how some elements are treated in budgeting and accountancy terms. The other issue is how the hub model has been structured by the Scottish Futures Trust and the need to look at the arrangements for restructuring it to ensure on-going compliance and that it is treated differently from stand-alone projects. There are two things to consider: how we treat our spending and accountancy decisions, and how the SFT is delivering its hub model in order to comply with the rules and continue to deliver. Local authorities and others are certainly playing their part in that.

Ivan McKee: The bottom line is that you are still able to do everything that you had planned to do in terms of capital spend—you have managed to move forward with the plans to which you had committed.

Derek Mackay: Yes. The timelines were such that the Government was able to continue with its capital programme.

The Convener: Patrick Harvie has a question, but first I want to ask Ivan McKee's question in reverse. What would have happened if you had decided not to reclassify the projects—in effect, if you had decided to classify the projects that you were involved in and start from the beginning? What would the impact have been of the converse of the current situation.

Derek Mackay: I will let Andrew Watson cover that.

Andrew Watson: If, at the point at which the guidance changed, the decision had been taken to reprocure the AWPR for example, which was obviously very far advanced on its procurement journey, the main impact would have been the introduction of a significant delay in the project and in the economic activity that goes along with it, because quite a long period to redo the model and the procurement route to be taken would have to have been built in. Obviously one might also, as a result of a significant delay in a major project, see cost increases as project partners re-evaluate the overall costs of delivery of the project.

The Convener: That would have been a way around it, but there are obvious implications.

Patrick Harvie (Glasgow) (Green): I have a question on a separate issue—capital spending—from those that have already been raised—capital spending

The low-carbon infrastructure task force report—"Scotland's Way Ahead: The Case for Low Carbon Infrastructure in Scotland", which was welcomed by the Scottish Government—says that just about half of the Scottish Government's capital spend is on low-carbon infrastructure but that that figure needs to be more like 70 per cent if we are to meet even the level of ambition that was set before the Paris agreement, never mind the increased scale of ambition since then. Is that figure of 50 per cent still correct? When do you intend to meet the 70 per cent plus target, or does the Scottish Government's budget already include capital spending on low-carbon infrastructure at that level?

Derek Mackay: I am not entirely sure about the proportion of spend, but some of the drivers around that include the contractual obligations that we have and the policy commitments that we are meeting, and involve a number of projects that we are committed to. Within that, there is an increase in energy efficiency in housing and other areas, which will also support our climate change actions. More detail on that will emerge over the weeks and months ahead, including on the Government's position on energy.

Andrew Watson: I do not have the document in front of me. However, from memory, the calculation that Patrick Harvie mentions was based on a review of the infrastructure investment plan, which extends considerably beyond the draft budget for 2017-18. I will double-check the figures and write to the committee, if that would be helpful. The infrastructure investment plan was published in December 2015 and remains very much our long-term plan.

Patrick Harvie: It would be helpful if we could get confirmation of what proportion of capital spend will be on low-carbon infrastructure in the draft budget.

The Convener: As no one else has questions on capital, we will move on to local government. It is fair to say that there seems to have been some confusion around the local government settlement, with different bodies setting out different analyses of the figures and figures compared with previous years' figures. How has the Government arrived at its position and what exactly are the implications for local government in terms of the annual resource that is available to councils?

Derek Mackay: I think that I was able to outline in the budget statement how I arrived at the overall figure. The settlement is a fair one for local government.

Page 101—I think—of the budget document includes a table on local government, but it does not include everything across all the individual portfolios. In my statement, I was able to describe a like-for-like analysis that is relevant in this regard. The important point is that the local government finance settlement comparison showed a reduction of £47.4 million between 2016-17 and 2017-18. However, that is not the end of the story because I also factored in healthcare and social care integration, because I believe that that is part of local services. Its being factored in shows that there has been an increase.

I have discussed the council tax multiplier figure, too, because I believe that that is relevant to increased resource for local authorities. That, combined with healthcare and social care integration, is how I get to the figure for the increased spending power for local government and local services of £240 million, which represents an increase of 2.3 per cent. I am able to provide more information to the committee; I recognise that, in terms of the totality of resources that go to local government, the issue is complex. Funds come from a number of portfolios and are given over a period, As I said, the budget document contains the level of resource that is available to each local authority.

16:30

The Convener: I want to ask a brief supplementary question before I bring in Neil Bibby, who I know is interested in that area. You are saying that, at the beginning of the process, there was a figure that showed a reduction of £47.4 million in total local government expenditure, and that other elements were added back in. You probably do not have the Scottish Parliament information centre briefing paper on the draft budget to hand, cabinet secretary, but if you add in the figures that are on page 19—

"£111m for additional council tax income from changes to Bands E-H ... £107m for the additional integration fund ... £70m for raising council tax by 3%"—

that takes you to £240 million. Is that right?

Derek Mackay: Yes, it is.

The Convener: Right. I just wanted to confirm that the SPICe briefing is accurate about that.

Neil Bibby (West Scotland) (Lab): Good afternoon, cabinet secretary. In your opening statement, you said that you look forward to engaging with committee members on the budget process. I take it from that that you respect the role of Parliament in the budget process and that you respect the parity of esteem between the Scottish Government and local authorities.

Derek Mackay: Of course.

Neil Bibby: Okay. I thought that you would say that, cabinet secretary. You have said that you respect the role of Parliament, yet you have written to councils in Scotland demanding that they sign up to your proposed local government settlement before this committee has reached a view on your budget and before Parliament has stated its intention with respect to your budget. That approach does not seem to be in keeping with what you have said and it seems disrespectful to local authorities. It also seems a bit odd, given that the Government does not have a majority in the Parliament. Will you withdraw your demand that councils accept the settlement, in order to allow the parliamentary process to take place before you decide on authorities' individual local government settlements?

Derek Mackay: Mr Bibby should perhaps reflect on the established mechanisms for funding local government. This is not a new process for the local government settlement and the orders that distribute resources to local authorities. There is a well-established timescale, which I am keeping to. I tried to move as quickly as possible, following the Chancellor of the Exchequer's autumn statement, to announce the Scottish draft budget and the local government settlement. To inform the discussion, I immediately started a consultation on the proposed figures with the Convention of Scottish Local Authorities and individual local authorities.

I have had very positive negotiations with local government and with COSLA specifically. The COSLA press release following the publication of the budget stated:

"We fully recognise that the Scottish government has made efforts to improve the settlement through their offer of a wider package including a major change on the council tax proposals."

I think that you can sense from that that there is quite a positive and constructive relationship. The dialogue will continue. It is quite normal to write to local authorities to determine whether they will accept the Government's proposed package. That then informs the decisions that the Government is able to take. I have had good partnership discussions with COSLA and with all the political parties that are represented within local government. It is right that I write to all 32 local authorities outlining the offer and asking for their positions because, essentially, it is a deal.

I have to say, convener, that there are some issues on which we do not see eye to eye with local authorities. For example, although we respect local government, we do not share a view on the reduction in teacher numbers. We want to maintain teacher numbers and we want council tax rises that are no higher than 3 per cent.

It is reasonable to set out the terms of an offer, to engage with local authorities and then to consider their responses. I have been asked further questions by some local authorities about the nature of the deal, but no local authority that I am aware of has rejected the Scottish Government offer, and COSLA continues to engage with me.

As I say, the process is to allow local authorities to set their budgets in line with their statutory responsibilities and the timescales that are set out, so I cannot delay that process. I accept that this is a minority Government and that I will have to work with other political parties to get the budget through, but those negotiations cannot stop the timely negotiations with local government that give authorities greater certainty when they plan their budgets in line with their statutory obligations. As I say, I have had very positive dialogue with local government in taking that approach.

Neil Bibby: Perhaps there has not been a rejection of your deal because—as you are reported to have told councils—if they do not accept the deal, they will get a

"revised and inevitably less favourable offer".

That might explain their not signing up to the deal.

Regarding the constructive discussions that you have had with local authorities, in a letter to you, one council leader said:

"I have carefully listened to the spin being applied to the narrative around your draft budget and it is, quite frankly, smoke and mirrors."

Another letter stated:

"In a year where the Scottish Government will enjoy around a 2.5 per cent increase in revenue resources local government resources are once again slashed by comparison—your claim of a fair settlement for local government is not a credible proposition."

Those are from the leaders of Inverclyde Council and Renfrewshire Council.

Derek Mackay: They are always the voices of moderation.

Neil Bibby: They are the voices of their communities.

Last week, you told us that there will be a real-terms increase in your budget for the coming financial year, yet you plan to cut core funding for local government by £327 million in real terms. You tried to put your own interpretation on that and to add in different pots of money, but the £327 million real-terms cut is what COSLA and trade unions have said they are facing. I appreciate that there is a difference in interpretation, but you cannot dispute that the cut to the local government budget is higher than the cut to any other budget heading. Figure 8 of SPICe's briefing on the budget shows that local government faces the biggest real-terms reduction. Why is the local government settlement being cut by more than the Scottish Government's own departments under any other budget headings?

Derek Mackay: Mr Bibby has made a number of points. I say first that when we are approaching council elections, it is hardly surprising that quotations from Labour local authority leaders say that they do not have the resources that they want. You have to judge some of their comments in that context.

Mr Bibby asked about the letter that I wrote to local authorities outlining the offer. The letter sets out the financial position and the Scottish Government's asks, which include maintaining teacher numbers, and our position on council tax. The letter covers healthcare and social care integration and a number of other areas, and was developed with the COSLA negotiating team. Mr Bibby asked why I said in the letter that if councils do not agree to the offer, they will receive a less generous offer. It would be a strange negotiating tactic if I were to have said, "Here is our partnership proposal. If you don't agree to that, I'll give you something better." We are trying to arrive at a proposition, in partnership, for a national arrangement and a national deal. COSLA has neither accepted nor rejected that position and each local authority will consider its position and respond.

Regarding the position from each council, I have a chart that I will be happy to share with Mr Bibby and the rest of the committee that shows revenue and capital support for each year, as well as the additional council tax income of more than £111 million from the reforms that Parliament approved. That is the potential increase from a council tax rise of 3 per cent; it is at the discretion of local authorities whether to deploy that. I believe that the table outlines some of the enhanced spending power of local authorities from the journey to integration of health and social care by the health service and councils—the commitment of increased funds of more than £107 million for that—as well as baselining the £250 million. It shows the package of total support for services for local authorities increasing by that amount. That is a very fair settlement.

In the past, the audit agencies have said that local government has had similar reductions to the Scottish Government. Going forward, I will ensure that local authorities have a fair settlement.

To give the context for Renfrewshire Council, I note that its capital and revenue funding for the financial year 2016-17 was roughly £316 million. For 2017-18, it will be £313.4 million. When we bring into play the additional council tax reform money, the council tax percentage increase and the money for integration, that shows an overall increase for local services. That is the context in which we are operating.

On the £327 million figure, that is not a like-for-like analysis. The figures that I have are derived from the local government settlement, and I have explained that that comes from a number of portfolios. I was able to outline to the Local Government and Communities Committee the additional resources that go into local government that are not covered in any of the tables, including city deal funding and other allocations, as well as the expansion of childcare. The extra resources that are given to local authorities over the course of the year are not taken into account in that figure. It was contained in an earlier briefing that I saw, but it did not compare like with like, but compared the position after the budget revisions with the position at the start of the financial year. The figures that I outlined in my earlier remarks are accurate. Graham Owenson might want to cover in more detail how we arrived at those figures, if that would assist Mr Bibby.

Neil Bibby: We have a disagreement on what your cut to local government is. Do you want to bring in your official?

Derek Mackay: Absolutely.

Graham Owenson (Scottish Government): As the cabinet secretary said, the comparison with the £327 million figure is not comparing like with like. Between the draft budget for 2016-17 and the final budget for that year, something like £160 million was allocated in year to local government. Similar amounts will be allocated in 2017-18, so the same thing will happen. The comparison should be between the original budget—the draft budget—for 2016-17 and the draft budget for 2017-18. It is misleading to compare budget with draft budget.

Neil Bibby: We can disagree on the figures. I do not think that we are going to agree on what they are.

I want to ask you about the impact of your proposed cuts—or, if you are denying that there are cuts, of the local government budget. In the past few weeks, we have had reports of council social work budgets being overspent, teacher shortages, and of 13,000 staff having left local government on exit packages over the past five years. The president of COSLA has warned that further funding cuts would be "disastrous". Have you modelled the impact of the draft budget on local services?

Derek Mackay: Some of the impacts are going to be a targeted resource in education. As I have said, we have increased the attainment fund so that we can target the attainment gap that exists in Scottish education. That is in addition to existing resources. There was £50 million in attainment funding before, and we are now allocating a further £120 million. That is an increase. I look forward to that making a difference to educational attainment in Scotland. There is also the extra support for integration, which will sustain the living wage, as well as changes that support the sustainability of that integration agenda.

Those are some examples of positive movement within local government. Of course there are pressures. I am not dismissing the pressures within local government or any part of the public sector. It is fair to reflect that there are increased pressures, as demand for services has risen, and all parts of the public sector will have to continue to be efficient. As I said, however, with the increases, the resources that are available as a result of the decisions that the Parliament has taken on the multipliers and the ability of local authorities to raise local income, as well as the specific, dedicated funds that the Government has been able to provide, I think that it is a fair package for local government.

Mr Bibby referenced the comments from COSLA. It has spoken positively about the discussions, recognising movement from the Government and welcoming its position on council tax.

Neil Bibby: I am not sure that describing further funding cuts as being "disastrous" is necessarily positive, cabinet secretary. In relation to modelling the impact of the budget cuts, we have heard reports of 13,000 people leaving local government over the past five years. What is your analysis of the impact on jobs in local government as a result of your budget?

Derek Mackay: It is for individual local authorities to determine their priorities in the partnership arrangements with the Scottish Government. We have set out as priorities areas such as maintaining teacher numbers, focusing on attainment and that continued journey, and health and social care integration. We do not model what that means within local authorities. As independent corporate organisations, they will take their own decisions on their budgeting for the years ahead, including on what they want to do with fees, charges and spending. Those matters are for local authorities.

16:45

Murdo Fraser (Mid Scotland and Fife) (Con): I have a couple of questions to follow up on Mr Bibby's questioning.

Mr Bibby mentioned the £327 million real-terms reduction in the local government core grant. That figure has been much bandied around. I appreciate that your position is that that is not a fair reflection of the year-to-year balance and that you would argue that additional sums from elsewhere that are allocated to particular spending lines will go to the local government budget.

Last week, you and I had an exchange in the committee in which we talked about the funding from the UK Government. I made the case that your budget shows that UK Government funding has increased in real terms since 2010. Your argument was that that is all very well, but your discretionary spending has been cut in real terms. Are you not guilty of doing exactly the same thing to local government that you claim that the UK Government has done to you?

Derek Mackay: No. Local government has a fair settlement. Murdo Fraser knows that we have a position on further support and consequentials to the NHS and health. Local government will have local decisions to take on tax, but we can fairly include the position on the multiplier and the revenue and capital support that local government will receive, including an increase in capital of approximately £150 million from one year to the next.

Murdo Fraser: Last week, you accepted—Mr Bibby referred to this again in his questions—that your budget is up half a billion pounds on last year's budget in real terms. However, people across Scotland will be asked to pay more in council tax at a time when they face a cut in services.

I give the example of Perth and Kinross, which is the area that I live in. We have a Scottish National Party council administration there; indeed, our convener was leader of that council at one time.

The Convener: It is a good council.

Murdo Fraser: It might have been when you were leader, convener.

The Convener: Thank you.

Murdo Fraser: I will give some of the service cuts that that SNP-run council is considering for the coming year. It is considering cutting 24 secondary teachers in maths and English; removing primary school swimming lessons; a reduction in community campus opening hours; increasing the cost of school lunches from £2.10 a day to £2.70 a day; scrapping the community warden scheme; and cutting 94 care home places. My constituents in Perth and Kinross will be asked to pay more council tax—substantially more in some cases—than they currently pay, and their services are being cut at the same time. Who is to blame?

Derek Mackay: I will not be drawn on individual decisions about what local authorities might choose to do. However, on Perth and Kinross, as well as there being broadly the same amount of capital and revenue grant at around £256 million, the local authority will, of course, benefit from the increase in multipliers, and it will keep every penny of the council tax increase for the higher-value properties in Perth and Kinross. It will be able to raise the council tax and, of course, retain all those resources as well as the additional resources around integration joint boards. Therefore, it will have overall increased resources for local government services. It is up to that council to determine how to deploy those resources.

Murdo Fraser: If the picture is so rosy, why is that council considering making those cuts to vital services, which will directly affect my constituents?

Derek Mackay: I am responsible for decisions on what we give to local government, and I have outlined roughly the same figure of around £256 million for revenue and capital. The council will be able to raise more resources through the council tax, the multipliers and the council tax increase if it chooses to do so. That represents more resources. It is up to each local authority to explain what it proposes to do with its individual budget.

Murdo Fraser: Do you accept that, even if the council did all those things, including raising the council tax, as you suggest, it will still be looking at cuts in front-line services?

Derek Mackay: I will make a wider point about local government—

Murdo Fraser: That was a simple question.

Derek Mackay: As I have said repeatedly, it is for each local authority to explain to its electorate its decisions on the council tax and spending.

My wider point is that local government should continue to work in partnership with all community planning partners and to look at efficiency and at shared services that might be appropriate. There is room for further improvement in areas such as shared services between local authorities—collaboration on procurement is an example—and for doing things differently. All that has to be taken into account when looking at what local authorities have to spend.

The Convener: I think that Willie Coffey wanted to ask a supplementary question on that. Is that right?

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): Yes, my question is on local government. Good afternoon, cabinet secretary. Twenty-five years ago, I was elected as a local councillor. This is probably the first conversation that I have ever had where there is an argument when more money overall is being given. The SPICe paper that we have in front of us refers to “other sources of support”. That is real cash; it is not notional.

The convener read out some figures. Although the initial distribution of funding has dropped, as the cabinet secretary said in his opening remarks, when the council tax banding reforms and the money for health and social care is added in, the package of support for local government services is greater than the one that we got last year. I see that East Ayrshire Council, which is my authority, will be getting more than it did last year. Even if we were to disregard the potential 3 per cent rise in council tax that councils will be able to levy, when you add in those other factors the support has increased. Will you or your officials confirm that that is the case?

Derek Mackay: I confirm that there is an increase if you take the revenue and capital support together with the additional council tax reform income—even before you get to the decision on increasing council tax by up to 3 per cent, that is the case.

In the table to which I refer, there are also resources that are, as yet, undistributed at this point, so it is the case that, overall, more resources are in the system.

Willie Coffey: Colleagues, for their own political purposes, will say what they want and need to say and ask why our councils are making cuts here, there and everywhere, but the settlement that local government is getting is, overall, going up. That is even before councils apply the 3 per cent levy, if they choose to do so.

Derek Mackay: Mr Coffey mentioned East Ayrshire Council, which is a council that he has an interest in. The revenue and capital increase there goes from £231 million to £233 million. That is an increase even before you get to the additional income from multipliers, the potential council tax increase or take into account the extra resources given to the integration boards, which are about integrating health and social care, which is very much a local service.

The Convener: Patrick Harvie has the last question on local government. I will then move on to health, because that is the biggest area of expenditure.

Patrick Harvie: I am afraid that, after that last answer, I am not sure whether there is any value in asking my question. It seems to me from the SPICe paper that the most generous interpretation of the figures still shows local government with the largest real-terms cut of any budget line. Surely it is not reasonable to suggest that SPICe is making political points for its own political purposes. Does the cabinet secretary accept the legitimacy of the figures that SPICe has given us? Does he accept that even the most generous interpretation shows a real-terms reduction of £166 million?

Derek Mackay: I am not trying to undermine SPICe. I am setting out our figures, which are derived from the budget. That includes the local government settlement and the figures that I have described. I have taken a like-for-like analysis. I am also taking into account the decisions on tax. I am genuinely trying to be helpful. I have outlined how the SPICe paper is not comparing like with like.

Patrick Harvie: The £166 million is a direct comparison between draft budgets, not between the eventual spending. Let us assume, as you say, that in-year allocations increase. The comparison between draft budgets still shows a £166 million reduction.

Derek Mackay: I have outlined the other resources that should be taken into account when you look at local government finance and local services.

Patrick Harvie: That would not be comparing like for like either, would it?

Derek Mackay: I am talking about the totality of resources that go to local government and its services. It is real cash; it is real money. It will make a difference to the services on the ground.

Patrick Harvie: You do not accept that there are any cuts involved here at all.

Derek Mackay: I accept that there are pressures within local authorities. Clearly, they will have to deal with those pressures. I am looking at the total package that goes to local authorities and to local government services. The Government made a clear manifesto commitment to pass on health consequentials, and we have done that. I know that we will be moving on to that topic.

Patrick Harvie: If you are describing them as pressures, not cuts, the only final question is, why is it right in principle for the Government to impose those pressures on local government budgets when you have the ability to do something different?

Derek Mackay: Because Parliament has supported our council tax multiplier position, for example. I think that it is fair to take into account the resources that local authorities will have that derive from those decisions when you are allocating spending figures and making decisions. We can take into account all the resources that local authorities will have available to them, as well as the other impacts on local government services.

The Convener: We will move on to health, which is the biggest area of expenditure. This will be an interesting discussion as it will involve a fight between pages 17 and pages 18 and 19 of the SPICe briefing, which will be re-run, I am sure.

Maree Todd: As someone who worked in mental health for 20 years, I am pleased to see the focus on mental health in the budget. It has long been the poor relation of general medical services. Can you elaborate a little on what you hope to achieve with the extra spending that has been focused on mental health?

Derek Mackay: I know that the health secretary is keen to ensure that there is increased support for mental health and for community health general practitioners as well. That is the direction of travel. Mental health spending will increase from £39.4 million in last year’s draft budget to approximately £52 million, which is an increase of 32 per cent. Of course, there is much that will be spent around mental health that is not identified in that individual budget line.

In the programme for government, the Government gave a commitment to invest an additional £150 million in mental health and to fund the delivery of improved mental health outcomes and target waiting times. Much of that features within the budget and the spending commitments that we have made.

Maree Todd: I also want to ask about your investment in primary care. I see that Miles Mack, the chair of the Royal College of General Practitioners, welcomed the fact that you have met the RCGP’s request for an increase to the budget for general practice. Can you say a little bit more about that?

Derek Mackay: There has been an additional focus on GPs. Quite clearly, there are pressures in health, and we have wanted to address that within health expenditure, so we have provided more support for the front line, including GPs.

Andrew Watson can address the specifics.

Andrew Watson: The budget allocates £72 million for improvements in primary care and GP services.

Neil Bibby: You have talked about record spending in the NHS in terms of the amount of resources that you are investing and I want to ask you about outcomes as a result of that. NHS targets are consistently being missed, as can be seen if you look at the number of patients waiting for accident and emergency treatment and the shortage of beds in hospitals such as the Queen Elizabeth hospital, and there is also a crisis in GP services, with Peter Bennie, the chair of the British Medical Association Scotland, warning that the NHS in Scotland is at breaking point. Are you telling us that there is enough money in the NHS budget next year to hit all the NHS targets?

Derek Mackay: The key thing is that the health secretary is very much focused on a process of investment and reform in the NHS. Obviously, we want to meet the targets that have been set out. On the issue of financing, we have passed on in full the health resource consequentials as part of our journey towards increasing the NHS revenue budget by £500 million more than inflation by the end of the parliamentary session. We have passed on the resource consequentials of £304 million, which has resulted in a total uplift of £307.4 million, a figure that includes further transfers.

As we have said that we would do, we have increased funding and have started to contribute more than is required by inflation towards that figure of £500 million more than inflation. That recognises the pressure within the NHS and relates to the fact that, at the Scottish Parliament elections, the Scottish National Party promised to put more money into the NHS than any other party did.

17:00

Neil Bibby: I am aware of the figures that you are quoting. My question was whether you are putting in enough resources for the NHS to be able to meet the targets that it needs to meet. Are there enough resources in next year's budget for the health service to hit its targets? Is that the Government's position?

Derek Mackay: We have set out targets and we want to meet them. I have given the NHS a settlement that meets our manifesto commitments. To ensure that we meet those targets there has to be reform, as well as investment.

Yes, I believe that there are resources to adequately fund the NHS. Of course there will be challenges because of the increased demands on the NHS, whether they are to do with drugs, technology or the needs arising from the population's changing demography. I believe that the settlement that we have given to the NHS is in keeping with our manifesto commitment and it will continue to deliver the high-quality NHS that we want to see.

The Convener: Ash Denham wants to cover childcare and colleges.

Ash Denham (Edinburgh Eastern) (SNP): The draft budget allocates more than £60 million of new investment to support the expansion of early learning and childcare. The budget equality statement says that the investment

"is the most significant infrastructure investment in the Scottish Government's ... programme."

Will you explain what impact that investment will have, perhaps in a wider context, and how the money will be broken down by specific spends?

Derek Mackay: The key issue is the expansion of childcare, or increasing the current number of hours of support. John Swinney will be able to outline further details of the allocation, because he has been consulting on that. The beginning of the journey for the expansion of childcare is the allocation of around £60 million, which is roughly half resource and half capital. We will look at the best way to deliver on that commitment to massively increase childcare provision: what is the best model to ensure that we deliver that number of hours. As I said, there will be more detail from the portfolio on that. It will be informed by the pilot process that is being undertaken.

Ash Denham: I guess that you could say that childcare is part of our social infrastructure, and the investment is in that. Do you see the investment as having a wider economic impact?

Derek Mackay: There are educational benefits in the preventative approach of engaging our youngest earlier, and there are societal and economic benefits. A number of new training places will be created, which will lead to deeper employment. The wider economic benefit is that more parents will be able to return to the marketplace. A range of benefits will come from the increase in childcare. I acknowledge that this is the beginning of the journey of the manifesto commitment. The £60 million allocation of new resource in the budget will help to achieve that.

Ash Denham: The draft budget allocates an increase in college resource funding of £21 million in cash terms. I have a large college—Edinburgh College—in my constituency. What do you expect colleges to be able to achieve with that funding? I guess that I am getting at the significant skills gaps that we can see in the Scottish workforce. Is the investment of an amount that can address that?

Derek Mackay: There is certainly a welcoming of that investment. There is also the on-going review of enterprise and skills, so that we can calibrate colleges to ensure that there is appropriate support for jobs, employment and the skills that companies require.

A record number of young people are going to positive destinations. The resourcing will allow colleges to maintain the number of full-time places and engage with employers through such initiatives as the new flexible workforce development fund. There is support in resource and capital.

Adam Tomkins (Glasgow) (Con): Page 43 of the budget document, which concerns your portfolio—finance and constitution—shows an £80 million line for something called

"Scotland Act 2016 non-tax Implementation".

What is that for?

Derek Mackay: Essentially, it concerns the powers that are being transferred to Scotland that might require support in the form of administration and systems, and support for the deployment of the new powers—social security would be one example.

Adam Tomkins: When the Minister for Social Security was before the Social Security Committee just before Christmas, she was unable to say whether that £80 million was just for social security implementation or was for more general purposes. Can you tidy that up?

Derek Mackay: Over the course of the year, when cabinet secretaries require amounts to deliver the implementation of new powers, they will approach me, so the allocation will be determined over the course of the year. That is why that money has not been allocated to individual portfolio budgets but has, instead, been retained by me to spend as required in relation to the proper implementation of the new powers.

Adam Tomkins: So it is not all for social security implementation.

Derek Mackay: No, not necessarily.

Adam Tomkins: How much of it do you anticipate will be spent on social security implementation?

Derek Mackay: It is hard to forecast. I imagine that that area will have a major call on that resource, but cabinet secretaries will approach me when it comes to the implementation of those powers.

Adam Tomkins: If it is not all for social security implementation, why do the level 4 figures suggest that it is?

Derek Mackay: I am not sure whether that is accurate; I believe that it was a mistake in the documentation. Although I have said that I can imagine that social security will have a major call on that resource, the amount that will be allocated in that direction has not been determined. It should not be shown as all being allocated to social security. I will ask Andrew Watson to correct that. I suspect that that is an error in terms of the narrative.

Andrew Watson: Yes, I believe that there is a typo in the level 4 analysis. I think that the Scottish Government clarified that in writing to the Social Security Committee subsequent to the meeting with the Minister for Social Security to which you referred. As the cabinet secretary said, the money has not been allocated to social security. Decisions will be taken during the year about the allocation of that money.

Adam Tomkins: Can you help me to understand how you arrived at the figure of £80 million? Why is it not £85 million or £125 million, for example?

Derek Mackay: That relates to the agreement with the UK Government about what will be transferred to Scotland for the implementation of the new powers and the issue of our having certainty about how the money will be spent over the course of the year. That is the figure that was arrived at as part of the deal about what is being transferred from the UK Government to the Scottish Government for the implementation of the new powers. It is what I have retained from the allocation so that I can deploy it over the course of the year.

Adam Tomkins: I understand that, but how do you calculate that it will cost £80 million—rather than more or less than that—to implement the powers, given that the relevant minister is not even sure which powers the money is being allocated to over the course of the coming financial year?

Derek Mackay: It is simply the figure that we have available to deliver those powers, following on from negotiations with the UK Government. Andrew Watson might want to say more about that.

Andrew Watson: What the cabinet secretary says is correct: it reflects the transfer under the fiscal framework for 2017-18.

Adam Tomkins: I understand that. My question is, how did you arrive at that figure rather than a higher one or a lower one?

Andrew Watson: That is the figure that reflects the transfer into our budget. If the cost of the implementation of powers is more or less than that, we will need to accommodate that within the wider programme. However, you should bear in mind that most of what we are talking about is to do with the set-up and implementation of powers over a period of time. There will be further transfers under the fiscal framework in future years, and the task for cabinet secretaries is to design their programmes around the funding that is available through the transfers that have been made.

Adam Tomkins: Cabinet secretary, in your opening remarks—which seem an awfully long time ago—you mentioned the importance that the Christie commission attached to preventative spend. Elsewhere in your budget documentation, you have an allocation of—I think—£75 million for aspects of community regeneration. How do you go about calculating the relationship in your planned public expenditure between expenditure that is designed to prevent poverty and social security expenditure, which is designed to help those who are in poverty?

Derek Mackay: On prevention, we consider the impact of all of our decisions as best we can. A number of policy initiatives will be designed to support people with regard to the impact of UK Government decisions around welfare, whether that concerns the welfare fund, bedroom tax or whatever. We have proactively promoted policies that will make a difference in prevention, such as what we are doing around childcare, regeneration and our investment in housing. When we make our budget decisions, we take a holistic look at prevention and think about what will make a difference to people's life chances and the outcomes that we are focusing on.

There is no magic formula, of course, but we consider prevention and our approach to outcomes when making our budget determinations. We are deploying transformational policies, particularly around childcare—the attainment fund is targeting resources in the early years. We are taking very specific approaches in portfolios, such as family nurse partnerships, our work with GPs and our work around financial inclusion, income maximisation and so on. As well as overall commitments to policy priorities, there is a range of individual actions that speak to the prevention agenda.

Adam Tomkins: Thank you.

Derek Mackay: I will add one point—because it is important—on community planning. We need to support community planning partners to come together for a community plan for a local area, to ensure that it brings totality of resource to the table—not just individual budget lines but genuine public sector partnership working to focus on local priorities. In that context, regeneration is very important. Housing, infrastructure and other interventions can also be taken into account.

The Convener: We move to enterprise, in which both Ivan McKee and Dean Lockhart have an interest.

Ivan McKee: I want to look at the Scottish Enterprise element of the enterprise budget, in which, as you can see from the numbers, there have been significant reductions. It is true that the reduction is not the full picture on its total income: Scottish Enterprise can generate income from other sources because of the things that it has done in the past, for which it is to be commended. It is also true that because Scottish Enterprise works day in, day out with manufacturing companies, it understands the value of practising what it preaches. Scottish Enterprise works with manufacturing companies to make them more competitive, so that they can compete on the world stage, so it is important that Scottish Enterprise itself becomes more competitive and efficient, delivering more with less. All that is to be commended, in particular the extent to which it has focused on internationalisation.

I would like your comments on the extent to which Scottish Enterprise has got other money coming in and the extent to which it is refocusing. It obviously understands that it is not about inputs; it is about outcomes. That is important. Can you also help us to understand the extent to which the fact that Scottish Enterprise is managing to do more with less has allowed money to be refocused on other areas that are helping business, such as the extension of the small business bonus, which helps businesses directly?

Derek Mackay: In previous years, Scottish Enterprise was able to make savings through the strategic forum and they have been built into these figures. There is a reduction in capital as well. Some of that reflects its ability to generate income and draw down other sources of funding, such as EU funding. There is a change of position on financial transactions and there is a change in the non-cash element, including depreciation, for Scottish Enterprise. All those things must be taken into account.

On the wider issue of a more enterprising Scotland, we have identified resources around the internationalisation agenda, the innovation agenda—with the innovation hubs that we are creating through universities—and the trade missions that we want to deploy. We have been able to make other industrial interventions, such as the Lochaber intervention, the different approach that has restored shipbuilding to the Clyde through Ferguson's, and the steel intervention. Some of our wider interventions have been around different ways of financing enterprise and support through guarantees.

On guarantees, I want to return to the committee to talk about the Scottish growth scheme and how we support businesses through it.

Of course, there is also the wider tax context, whether that is the commercial element of the land and buildings transaction tax or business rates—I previously set out our position on business rates poundage, the small business bonus and other reliefs. There is the on-going review, which includes Scottish Enterprise, to ensure that we are aligning priorities and reducing duplication across skills and enterprise.

It is right to look at the wider picture. That said, I want to look closely at Scottish Enterprise in terms of its anticipated income, its other funding streams and its financial transactions in order to ensure that we get the balance right. I am happy to engage further on that, but the situation is not as clear cut as you might have been led to believe.

17:15

Ivan McKee: Absolutely. As I said, although we tend to focus on inputs—a lot of the discussion today has centred on that issue—the important point for this committee and for the rest of the public sector, as we move forward with the Christie agenda, is what is delivered. The on-going efficiencies, which allow us to deliver more with less, are what we need to focus on in the long term.

Dean Lockhart (Mid Scotland and Fife) (Con): I want to follow up on a couple of issues that have been mentioned. I agree that there are a lot of moving parts to the Scottish Enterprise budget but, even after taking into account European funding and other income that is generated by Scottish Enterprise, the Scottish Enterprise budget this year is estimated to be 7.5 per cent down on last year's budget, and that comes on the back of eight years of declining budgets for Scottish Enterprise.

In your opening remarks, you talked about the priority for economic growth during this time of economic uncertainty and the fact that the Scottish Government has £500 million more in budget spending this year. Why are you deprioritising economic growth?

Derek Mackay: We are not, because I have been able to cover a number of other initiatives and spending commitments that contribute to sustainable economic growth. I accept the 7.5 per cent figure that Mr Lockhart mentioned, but I put that in the context of other interventions that support our economy and will deliver economic growth, including our business rates regime, support for the Scottish growth scheme, further work on innovation, trade missions, internationalisation and the industrial interventions that we have been able to undertake. Scottish Enterprise has a strong track record of making efficiencies and of being adept. Some of those efficiencies, such as those involving financial transactions, have been demand led. I have said that I will examine individual budget lines to ensure that we have adequate support for business and for Scottish Enterprise.

Of course, some of this is about priorities, and it will be for Mr Lockhart and others to tell me what other areas they want to reduce funds for in order to give money to one individual part of the budget.

Dean Lockhart: My concern is that, last year, economic growth in Scotland was a third of the rate of economic growth in the rest of the UK, and that trend looks set to continue. Although Scottish Enterprise has been able to make efficiencies in the past, it has said that there is a limit to what it can do when its budget is being cut. It will have to cut back the support that it gives to growing companies in Scotland. The level of support that is made available to growing companies in Scotland is being cut back.

Derek Mackay: I have tried to explain to Mr Lockhart that there is a range of interventions that are outwith the Scottish Enterprise budget line that make a difference to the business community in Scotland, including our position on tax, the commercial rates for LBTT, our industrial interventions, the prospect of the Scottish growth scheme and other support around innovation and internationalisation. Having said all that, as Mr Lockhart knows fine well, the position with regard to our gross domestic product and economic growth is in large measure down to the impact of what is happening in the oil and gas sector.

It is important to look at the issue in the context of everything that I have just mentioned. I repeat that, in some of the budget lines, there are issues around depreciation, anticipated income and demand-led schemes such as those concerning financial transactions and capital. I am happy to engage further with Scottish Enterprise to see what flexibility we have to continue to support schemes that make a difference in growing our economy. I do not think that we can just take the Scottish Enterprise budget line in isolation and say that it is the totality of what we are doing to support the business community.

Dean Lockhart: You have mentioned the £500 million growth scheme quite a few times. Can you point me to where provision for that £500 million appears in the budget?

Derek Mackay: The nature of the scheme is such that, in terms of demand, it will largely be in the form of guarantees. It is a contingent liability. Where it might materialise or crystallise in the budget is in CDEL.

I need to have further discussions, including with this committee, about the structure of the Scottish growth scheme, to ensure that it is compliant and that we can deliver a scheme that the committee is content with, in terms of oversight. The scheme can be delivered, but it does not feature as spend because of the nature of how guarantees and loans will be delivered. It will be largely demand led.

Guarantees crystallise and materialise only if there is default, which, of course, we would not want to happen. The essence of the scheme is to use the strength of the Government's balance sheet to support—through guarantees, largely—small-to-medium-sized enterprises that want to grow and cannot get traditional financing. This will help them to grow.

That is a fair reflection of the position, although officials may wish to add to that regarding how the scheme features in the document. I hope that that is an adequate answer.

Dean Lockhart: It is helpful, thank you.

I understand that guarantees are contingent liabilities and are therefore off balance sheet. However, we heard from the Cabinet Secretary for the Economy, Jobs and Fair Work that, in addition to guarantees, the scheme will provide companies with loans. If that is the case, surely they would appear in the budget for next year.

Derek Mackay: As I described, the exact composition of the scheme, including the process for delivering it, has not yet been determined. That will require the engagement of this committee, which has oversight of guarantees. The scheme's whole package is yet to be determined. I will have further discussions with potential providers of it this week.

Dean Lockhart: Do you not think that calling the scheme the £500 million growth scheme is slightly misleading, given that there is no provision in the budget and the fact that very little fresh funding will be made available to companies? It is just a guarantee scheme.

Derek Mackay: It is a growth scheme to deliver economic growth to the value of £500 million, as has been described, by using the strength of our balance sheet to provide guarantees and loans to companies over that period. I am quite happy with its description and I hope that the Finance and Constitution Committee will engage with it positively, just as the UK Government has done, to ensure that the scheme is permissible and can be delivered.

The Convener: James Kelly has a supplementary.

James Kelly: Cabinet secretary, quite rightly, we have heard a lot from you in recent months about the impact of Brexit and the challenges that it will bring for economic growth. The level 4 data for Scottish Enterprise shows the budget going down from £255 million to £170 million. How will that contribute to economic growth post-Brexit?

Derek Mackay: I have tried to provide answers on the different parts that make up that figure, which include depreciation, the anticipation that Scottish Enterprise can generate income, the change in resource, which I have acknowledged, and the position on financial transactions. In part, financial transactions have been demand led—there is some flexibility within that.

I have also covered our wider position on tax and the other interventions that we make to support the economy, which have included the guarantees and interventions at Lochaber and in the steel industry, and the provision of contracts to Ferguson’s, all of which I am sure that James Kelly will welcome. We also have a specific focus on internationalisation and innovation, we have a manufacturing strategy, and there are other measures that have economic benefits, such as our childcare policy, which was described earlier, and maintaining support for higher and further education. We are making a range of interventions that support a more entrepreneurial Scotland.

I said earlier that Scottish Enterprise has a track record on delivering efficiencies, partly through the strategic forum savings. Rather than complicating the figures, those efficiencies have been built into them. I will continue to have discussions with Scottish Enterprise about the appropriate balance of support, to ensure that we get it right.

The Convener: Murdo Fraser has some questions on fuel poverty.

Murdo Fraser: I have just one question. I should remind members of my entry in the register of interests, which says that I am an honorary vice-president of Energy Action Scotland.

Cabinet secretary, what provisions does the budget have to tackle fuel poverty, and what impact do you expect those to have on fuel poverty figures in the coming year?

Derek Mackay: There are issues around the cost of fuel, which will obviously impact on fuel poverty. One of our key issues is to invest further resource in tackling fuel poverty and improving domestic energy efficiency. Part of that is the £114 million commitment. The totality of resource in terms of fuel poverty and energy efficiency is £140 million.

Murdo Fraser: Can you tell us what impact you expect that to have on the fuel poverty figures? We know that fuel poverty in Scotland has been increasing, despite the fact that we had a target to eradicate it by last autumn.

Derek Mackay: I do not have information on the specific relationship with regard to how much impact that will have on individual households, but I am happy to engage with the portfolio secretary and get back to Mr Fraser. Obviously, I want it to have a positive impact. That is partly why I made the initial comment about the price of fuel being a large determining factor, alongside the actual amount that is spent on the commitment. I think that Scotland has a strong track record in this area, and we want to do more.

The Convener: That leads me to a related question. The inflationary pressures on fuel, because of the value of the pound—we have seen a significant impact on the pound in the past couple of days—will add to the cost of fuel. I assume that the Government is conducting sensitivity analysis across the portfolios around the impact of a potential increase in inflation—there might not be much impact in the next financial year, but there might be an impact in future years. Is that a piece of work that is going on? The issue will affect areas other than just fuel poverty.

Derek Mackay: Generally speaking, inflation will have an impact. The figure that we have been using is 1.5 per cent but, clearly, if there is a change to inflation levels over the course of the financial year—which is anticipated—that will present further challenges for the public sector.

Patrick Harvie: For a long time, I have been of the view that we need not just modest increases in energy efficiency but an additional injection of funds to achieve a transformational change, and I am still concerned that that is not there. However, I want to ask about the way in which Scottish Government money is spent in this area.

In a number of subject areas, a case can be made for longer-term certainty about spending. Do you agree that that is particularly the case in relation to energy efficiency programmes, and that having a year-on-year allocation rather than a longer-term allocation involves the risk that, if money is allocated in the Scottish budget at this time of year and then filters through local government down to the level at which contractors and sub-contractors are recruited to deliver the work, that could result in the work being done in winter, which is the worst possible time of year to achieve the effect that we are looking to achieve? If some of that work is done in bad weather, it will be significantly less efficient and useful. Have you considered the practical impact of the short-term allocation of funding in this area? Is there a case, therefore, for giving longer-term certainty?

Derek Mackay: I have not considered that particular proposition in detail, but I accept the point that long-term funding and a long-term direction of travel would be helpful. We have a manifesto commitment around energy efficiency, and have made it a national priority. The increase of budget is the first step, and I would be happy to engage further on how we can ensure that there is some longer-term stability so that we can enable effective planning of the programmes, many of which are delivered in partnership with others. I am happy to consider the issue further, along with other portfolio secretaries, so that we can ensure that we can pull together welfare, housing and energy efficiency and try to set out the issues in an even more meaningful way as well as meeting our manifesto commitment. I think that we have made a commitment to invest £500 million over the course of the parliamentary session, and the investment of £140 million is certainly a step in the right direction.

Some of the shocks in energy efficiency have involved the withdrawal of UK schemes, which has impacted on our decisions. I want to focus on what can be delivered through a long-term strategy, so I will take up Mr Harvie's suggestion that I should look at long-term financing in addition to the one-year spending approach.

Patrick Harvie: That is helpful. Thank you.

17:30

The Convener: James Kelly has a question on sport.

James Kelly: We have heard from a couple of colleagues about the importance of the Christie commission and preventative spend. Sport fits into the category of preventative spend: if more is spent on it, participation levels will increase and, if people are healthier, that will, we hope, reduce the health budget and people will potentially be economically active. Why, therefore, has the sport budget been reduced?

Derek Mackay: Mr Kelly is speaking about wider health and wellbeing. Earlier, we discussed our position on early intervention and the preventative approach. We have to consider all the interventions, including family nurse partnerships, childcare and wellbeing initiatives. There is a range of things. [*Interruption*.] I am sorry, but I am hearing Mr Kelly for a second time through someone's electronic device.

The Convener: That was somewhat spooky. [*Laughter*.]

Derek Mackay: A range of different things support—[*Interruption*.] I am now hearing myself, which is even worse. We make a range of interventions in prevention, wellbeing and early years support.

We are also looking at some of the big sporting events that are coming forward, which will feature in the culture line.

In prioritising the health and sport portfolio budget, we have been able to protect other areas in the preventative agenda, including family nurse partnerships. We have to look at wider wellbeing in relation to sport.

James Kelly: I am sorry, but that does not sound very convincing to me. We have quite rightly heard a lot from the Government, not just in recent years, but in recent months, about the importance of sport, and the Government has talked up Scotland's sporting achievements. Your budget document says that the objective of spending on sport is to increase community participation and "reduce inequalities". How can we get more community participation? How can we get people from working-class areas participating in sport if you have cut that budget by £3 million?

Derek Mackay: We have to look at every intervention that the budget will make in wider health and wellbeing. It is not just about sport. Sport is important, and we appreciate the work that sportscotland has undertaken but, as I have said, we have to look at wider health and wellbeing, particularly in relation to our young people.

The early years focus is very strong. There is a focus on family nurse partnerships, health visitors, the baby box—to give children the best possible start in life—community planning partnerships and expanding childcare. I am describing more interventions and support for the early years. There is, of course, also work through the attainment fund to give our young people and children in particular the best possible start in life. That and the other interventions that the health service will make are part of the wider health and wellbeing agenda.

On sport and physical activity, there is on-gong support for active lifestyles through capital investment in cycling and walking, for example. A range of interventions will encourage more active lifestyles.

The Convener: Neil Bibby wants to ask about concessionary travel.

Neil Bibby: Cabinet secretary, you will recall that, at the time of the budget statement, I asked you about plans to cut the concessionary travel budget. You plan to reduce that budget from £207.8 million to £198.3 million, which is a cut of £9.5 million. Since the statement, the Confederation of Passenger Transport, which represents bus operators, has said publicly that

"bus operators will have no choice but to cut services or pass on the cost to fare-paying passengers."

Has the Scottish Government given any consideration to the impact that a cut in that budget will have on the provision of bus services in Scotland?

Derek Mackay: I believe that there will be on-going dialogue involving the CPT, the Cabinet Secretary for Rural Economy and Connectivity and the Minister for Transport and the Islands. There is on-going support for the bus services operators grant and concessionary travel. We have said that we want a consultation on concessionary travel, but we want to ensure the sustainability of the scheme. We also have proposals on expanding the scheme to cover apprentices and those who are seeking work. We will have to go into dialogue for all that but the budget for 2017-18 of £198.3 million reflects the latest forecasts, in reimbursement terms, to be agreed with bus operators.

Neil Bibby: What the bus operators have said publicly about the potential impact of that cut is worrying. Page 127 of the budget document says that you intend to

"develop options in consultation with stakeholders to safeguard the scheme's longer-term sustainability",

and it mentions a number of examples of where access to concessionary fares could be widened. Do the options include limiting the eligibility criteria for the bus pass?

Derek Mackay: That question pre-empts the consultation.

Neil Bibby: So looking at limiting the eligibility criteria is on the table.

Derek Mackay: The cabinet secretary and transport minister will take forward a consultation on concessionary travel. We have made it clear that we want to continue to help older and disabled people to live more connected, healthier and happier lives. I have described that the budget, as set, reflects the latest forecast, in reimbursement terms, to be agreed with bus operators. In addition, and looking forward, the Government has a commitment around expanding concessionary travel to support modern apprentices and job grant recipients. How all that is delivered will be a matter for consultation.

The Convener: This the final question in this part of the meeting. I will then suspend the meeting for five minutes.

Patrick Harvie: I want to talk a bit about the equalities impact and the issues that the equality budget statement covers. I will begin with transport, which Neil Bibby just raised.

A proper analysis of the equalities impact of the budget might have looked at who uses public transport. We know that women and older people are more likely than men to use public transport, and that they use it more frequently. Women are also less likely than men to have individual ownership of a car or to have a driving licence. A proper equalities impact analysis might have looked at that area and done a comparison with, for example, a big increase in the motorways and trunk roads budget and other aspects of the transport budget. It is not only that the detailed analysis is not there; the concessionary travel scheme is not even mentioned in the equality budget statement.

Do you agree that there is substantial scope for improving the analysis that the Scottish Government brings to bear on the equalities impact of its general spending plans? The women's budget group, for example, has taken the UK Government's spending plans and produced a decile analysis of the impact on cuts to public services that will come through UK Government plans. That kind of analysis is absent from the Scottish Government's documentation, although I suggest that it is easily demonstrated that the loss of value in public services that many people on low incomes will experience will be far greater than, for example, the modest increase in their income through the pay settlement if they happen to be lucky enough to work in the public sector.

Can you respond to the general comment that there is inadequate analysis of the equalities impact in socioeconomic terms or other terms?

Derek Mackay: I do not agree that the analysis is inadequate. In reflecting on the budget and how it will impact on individuals, groups and sectors in society, it provides a great deal of helpful information.

I will take the question in the spirit with which it was asked and say that I am happy to work on further refinement to ensure that, if there are omissions, we capture that for future work. If we take the helpful example of transport, of course there would be concerns about the downward trend in the number of bus users—we know the difference that such services make to society. However, that is not new; it has been going on for some time.

It is fair to look at individual policy areas and reflect further on the impact that they will have on some of the most disadvantaged parts of society. I want to make sure that that is very much part of the considerations.

Staying with transport as an example, the transport minister has announced that the national transport strategy will be reviewed. It is right that we ensure that equality-proofing considerations are very much part of that and are built into each such review as well as the Government's budget. I think that we have adequate information to tell us about the potential impact of our decisions in a range of sectors, such as the third sector or childcare, and the impact on women, older people or those with disabilities. I believe that it is adequate, but—

Patrick Harvie: Why is there no mention in the equality budget statement of the budget cuts for concessionary fares and bus services, as compared with the budget increase for motorways and trunk roads? Why is that analysis not in the equality budget statement?

Derek Mackay: I was going to go on to say that if it is believed that there are omissions, I am happy to work with committee members to ensure that a full range of considerations feature in future years. We propose to continue with the concessionary travel scheme. For example, there is support for the BSOG and the green bus fund. There is on-going investment in transport and in concessionary travel—indeed, we want to expand the scheme in the area of youth employment.

I say to Mr Harvie that I am trying to be constructive and reasonable. If people feel that there are areas that have been missed this year, I am happy to look at them to make sure that they are factored in for future years.

The purpose of the equality budget statement is to go over how the budget affects disadvantaged individuals and groups in different sectors. It has done that in a host of different areas. On any individual omissions, such as those that Mr Harvie suggests exist in relation to transport, I would need to refer the issue back to the portfolio and get back to him. I am committing to work constructively with the committee to ensure that if there are any areas that it wants to be factored in for the future, we do that.

Patrick Harvie: From what I understand, the Scottish Government agrees that there would be great value in having an intersectional analysis—in other words, an analysis of the way in which different equalities characteristics interact and can have a greater impact on someone's life—but that it has said that the evidence base does not yet exist to achieve that. I put it to you that a look at the work done by the women's budget group in relation to the UK Government's budget shows that it is already entirely possible to carry out that kind of analysis—it has done it already. Why is it that the women's budget group is capable of undertaking that kind of work but the Scottish Government has not produced such work?

Derek Mackay: I will happily engage with a number of people on the budget. I am happy to engage further, to look at the evidence and to consider the issue further.

Patrick Harvie: I will give you an example. The women's budget group has demonstrated the impact of public spending cuts. We have already agreed in the chamber that the UK Government's tax and welfare changes take a substantial amount of income away from the poorest third in society and increase the income of the richest third in society. However, the women's budget group's work is about the cuts to public services and the value that will be lost in the public services that people access. It shows that the greatest reduction in the value of public services will be experienced by the poorest decile in society and that the wealthiest, who have least reliance on public services, lose far less. Is it not reasonable for us to ask the Scottish Government to produce that kind of analysis of the impact of its spending choices and its tax choices?

Derek Mackay: Convener, I have said that I am happy to look at the issue to ensure that the analysis is deeper and wider. I am happy to consider the matter further and will reflect on the points that have been made. The equality budget statement that has been provided offers analysis of a number of our policies and welcomes a number of interventions, but I am happy to look further at the analysis that could be provided in future, reflecting what Mr Harvie has said.

Patrick Harvie: So you do not think that it should have been done for this budget.

The Convener: I bring agenda item 2 to a conclusion. I will suspend the meeting for five minutes. We will then move on to agenda item 3 when, as members know, we will put questions to the cabinet secretary that have been submitted to us by members of the public via social media.

17:44

Meeting suspended.

17:52

On resuming—

The Convener: Welcome back, colleagues. The third and final item on today's agenda is a further evidence-taking session on the Scottish Government's draft budget 2017-18 with the Cabinet Secretary for Finance and the Constitution, Derek Mackay, who is accompanied by the same officials who joined him for the previous item.

In this evidence session, members will be asking not their own questions, but questions that were submitted by the public via social media as part of our #askthecabsec initiative. Members will have the opportunity to follow up the cabinet secretary's responses with their own supplementary questions if they so wish. Members have a paper containing questions that have been submitted by the public, so without further ado we move on to ask those questions.

I start with a question from Jonathan Smith, who did not provide his location. He asks:

"Is government's aim to increase total tax collected or just appeal to their core voters by increasing taxes on 'the wealthy'?"

Derek Mackay: I know that you want me to be concise, convener, but I do not think that you want me to be Twitter concise in the number of characters that I use.

Adam Tomkins: Oh, please be that concise. [*Laughter*.]

Derek Mackay: I hear dissent from the committee.

The Convener: We need to treat this seriously—we are talking about members of the public.

Derek Mackay: It is a serious question. We are trying to deliver a budget for all of Scotland that invests in every part of the country and supports our priorities. As far as tax collection is concerned, we believe that our approach to tax is balanced and that we are using the new powers in a fair and balanced way that does not involve rises in tax rates and which freezes the basic rate. That ensures that some of the least well-off people in society are supported, but we are absolutely ensuring that we strike the right balance on tax and spend.

This is not about appealing to "core voters". Indeed, I am not quite sure who they are—after all, the Scottish National Party is quite popular. However, our tax and spending proposition is based on our priorities, our programme for government and the balanced proposition on tax that we set out during the Scottish Parliament elections.

The Convener: As no one has any supplementaries, I call Maree Todd.

Maree Todd: We have received a wide range of questions about HM Revenue and Customs office closures. The committee has raised the issue of closures with HMRC. I know that Linda Fabiani, whose constituency is East Kilbride, has raised it too, and it certainly affects my region because it includes the closure of offices in Inverness. John Davidson, who is from Glasgow and is vice-president of the Public and Commercial Services Union Scotland, asks:

"how can you ensure that SRIT"

—the Scottish rate of income tax—

"will be collected properly when HMRC want to close tax offices across"

the

"country?"

Derek Mackay: That is clearly a decision for the UK Government, although I note that there is a great deal of opposition to the reductions. However, I should say, on the specific question, that I have been reassured by HMRC that there will be satisfactory implementation and operation of the Scottish rate of income tax, because it is set out in a memorandum of understanding and supported by the development of a service-level agreement. Notwithstanding the dispute and disagreement that exists over deployment of staff, and the great deal of opposition to which I have already referred, I have been informed that the move should not impact on HMRC's collection of our taxes in Scotland.

Maree Todd: We have also had broader question that does not relate specifically to the Scottish rate of income tax. What impact will HMRC office closures have on the Scottish Government's ability to raise revenue?

Derek Mackay: The point is essentially the same. HMRC has assured the Scottish Government—there is on-going work in this area—that whatever restructuring it undertakes it will be able to fulfil its obligations to us. Again, that is notwithstanding the opposition to the deployment of staff, the changes and the issues around that. There is a great deal of opposition, but we have, nonetheless, been assured that our tax position will be deliverable.

Maree Todd: The tax gap UK-wide is estimated at £36 billion, or 6.5 per cent of the theoretical tax liabilities. Do you have any concern about that gap being closed, given all the HMRC closures and staff reductions?

Derek Mackay: Compliance is clearly a matter for HMRC, but we want to work with it to ensure that there is adequate compliance with regard to the Scottish rate of income tax. In that respect, the main issue is residency. Of course, with the taxes that have already been devolved, we are focusing very hard on tax avoidance and evasion. We expect HMRC to do the same to ensure that there are appropriate working arrangements to deliver the new tax arrangements effectively and adequately, and that those who might want to engage in tax avoidance and evasion are targeted. It is for HMRC to consider how it deploys its resources, but there will be a service-level agreement and a memorandum of understanding to enable it to meet the obligations that have been set out with the Scottish Government.

Ash Denham: The next question is from Bernard Harkins in Musselburgh, who is a PCS trade union representative and a community councillor. He asks:

"Some PCS members need to use food banks. How will you use your new tax powers to tackle poverty?"

Derek Mackay: The Government has made a number of interventions to support welfare . Unfortunately—I use that word because it is unfortunate that anyone has to use a food bank—that has had to include provision of support for organisations such as food banks.

With regard to our tax powers, however, I point out that 99 per cent of people will pay no more tax on their current level of income as a consequence of our proposed tax policy, and that freezing the basic rate of tax will, of course, help those who pay that rate. I will go a bit wider than the terms of the question and point out that, as part of our strategy, we have a specific policy to support low pay through a non-consolidated payment for those who earn less than £22,000.

Patrick Harvie: We have received questions on tax avoidance and evasion. One of those came from Deborah, who describes herself as a human being, which I am sure is reassuring to us all. She asks:

"what is the impact of tax avoidance and evasion in Scotland?"

18:00

Derek Mackay: I do not have a detailed figure on that. It is ultimately for HMRC to pursue issues in its areas of responsibility. For our devolved tax powers on LBTT and landfill tax, we have undertaken compliance and enforcement measures, working with organisations including Registers of Scotland. Where we have devolved taxation powers, we are making a strong effort to tackle tax avoidance and evasion.

As I said in an earlier answer, we are working with HMRC to ensure that it tackles residency issues so that there is as little tax avoidance as possible. HMRC has its own enforcement and compliance arrangements and processes, which it assures us are robust. There will be on-going work between HMRC and the Scottish Government to identify those who might be engaging in that kind of behaviour as we move forward with the implementation of new tax powers—specifically on income tax—in Scotland.

Patrick Harvie: I know that the Scottish Government has adopted—in with the bricks, as it were—a general anti-avoidance rule as it begins to establish devolved tax competence, and I welcome that approach. However, can the Scottish Government do more to stigmatise and expose tax avoidance, particularly on the corporate side? The Scottish Government does not control corporate taxation, but it could do more to identify organisations that are guilty of using tax havens or obscure tax arrangements to minimise their tax contributions, and to ensure that people know about the reality of that kind of behaviour.

Derek Mackay: The Scottish Government has been working well with HMRC to ensure that it gets the residency issue right and that everyone who should be paying the Scottish rate of income tax is doing so appropriately. We are engaging with HMRC to share information, where that is legal and appropriate, in order to tackle tax evasion and avoidance.

Mr Harvie is right to mention the reserved powers around corporate taxation. I can certainly reflect on where that issue relates to our devolved competences, and it is possibly worth looking at the grants that we give to organisations.

Murdo Fraser: I have a question on council tax that a respondent in Fife emailed to the committee. Unfortunately we cannot disclose the respondent's name, but—for the avoidance of doubt—it is not me. The question is:

"With regard to your proposals to accelerate Council Tax increases for Bands E and above, my research shows that modern and more energy efficient houses almost without exception tend to be placed a band or two higher than traditional, stone built, properties which has resulted in many large Victorian buildings owned by wealthy people only attracting Band D Council Tax, despite being worth as much as 40% more than a smaller new build.

Therefore, as there is a likelihood that tens of millions of pounds of Council Tax revenues are being lost due to this anomaly, which is putting pressure both on councils and the Scottish Government's finances, would it not be beneficial for all properties to be revalued during the course of 2017?"

Derek Mackay: I am not sure whether Murdo Fraser agrees with that proposition for revaluation, although he may well do. As I explained in the previous evidence session, our proposition for council tax can deliver more resources to local government via the changes to the multipliers. It was agreed by Parliament and will be implemented in the forthcoming financial year.

That is the point about council tax multipliers, and it drives home the issue of revaluation. The Government is not proposing revaluation, which we believe would be an unacceptable shock to the system and a deeply extensive administrative burden. Revaluation would provide a new stratification for council tax, but so much change would be involved that implementation would take some time. That, in essence, is what revaluation is about. We believe that our package is fair and balanced and will generate more resource for local government.

When we have a further developed position on council tax, we will engage with other political parties on the changes that we would like to make. I have given that commitment to the other parties, so I will happily engage on the issue in a wider context, but we are not proposing revaluation.

No money is lost to local authorities as a consequence of our position because, essentially, it is a stratification of property values.

Murdo Fraser: Thank you for that response. I have a brief follow-up question. Will there ever be a revaluation or are we stuck with 1991 values until doomsday?

Derek Mackay: That question assumes that the SNP will always be in government—

Murdo Fraser: I do not assume that much.

Derek Mackay: —and that I will always be the cabinet secretary. Even being the optimistic and positive chap that I am, I cannot be as confident as that.

We have had debates in the chamber and in this committee on the future of the council tax. I will have on-going discussions with political parties about the matter, as we have agreed, but we are not proposing a revaluation in this term of office. Will there be a revaluation in the future? Let us see what each party proposes in the on-going talks and for the next Scottish Parliament elections.

Dean Lockhart: The next question relates to payment timescales on Government contracts. Bill Alexander of Glasgow asks the cabinet secretary:

"When will he ensure that the 2009 promise on 30 day supply chain payment on government contracts happens?"

Derek Mackay: We are working hard on that issue. We have piloted, and hope to roll out, an intervention in the form of project bank accounts, which encourage subcontractors to benefit from an effective payment regime.

I can give you the figures for performance against the 30-day payment target. The Scottish Government's standard terms and conditions require that all supplier invoices that are not in dispute be paid within 30 days. Against that target, 99.8 per cent payments are made on time. Since October 2008, the Scottish Government has aspired to meet a 10-day payment target, and we have delivered on that to the tune of 98.7 per cent. Those are impressive statistics on payment of invoices.

Through the legislative provisions, the operational activities, the procurement strategies and the statutory obligations, we are trying to encourage every part of the supply chain to benefit from those targets and that legislation. As I said, the Government pays its bills within quite a rigid timescale, and our performance is strong.

Neil Bibby: I have a question on childcare vouchers from Cintra HR & Payroll Services, which is based in Gateshead but, I presume, processes vouchers for a number of Scottish companies and workers. It asks:

"Do Scottish rates affect the Earnings Assessment employers do for childcare voucher restrictions at start of the tax year?"

Derek Mackay: No, they do not; there is no impact. It is as clear at that.

Neil Bibby: There is Twitter brevity for you.

Derek Mackay: I could go on.

Neil Bibby: No—that will do.

Derek Mackay: Childcare is a reserved issue and vouchers are administered by HMRC.

The Convener: Perhaps the hashtag "#notheydont" will do.

That concludes our questions. We have not had time to ask some of the questions that members of the public submitted, but the cabinet secretary has agreed to respond to outstanding questions in writing, and we will publish those responses when we receive them.

I thank the cabinet secretary for his answers and committee members for asking questions. Most important is that I thank members of the public who submitted questions.

We will consider the first draft of our budget report at our next meeting, which will take place a week from today.

Meeting closed at 18:08.

Published in Edinburgh by the Scottish Parliamentary Corporate Body, the Scottish Parliament, Edinburgh, EH99 1SP

All documents are available on
the Scottish Parliament website at:

www.parliament.scot

Information on non-endorsed print suppliers
is available here:

www.parliament.scot/documents

For information on the Scottish Parliament contact
Public Information on:

Telephone: 0131 348 5000
Textphone: 0800 092 7100
Email: sp.info@parliament.scot

The Scottish Parliament
Pàrlamaid na h-Alba