



OFFICIAL REPORT
AITHISG OIFIGEIL

Finance and Constitution Committee

Wednesday 14 November 2018

Session 5



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CONTENTS

	Col.
TRANSPORT (SCOTLAND) BILL: FINANCIAL MEMORANDUM.....	1
SUBORDINATE LEGISLATION.....	14
Budget (Scotland) Act 2018 Amendment Regulations 2018 [Draft]	14

FINANCE AND CONSTITUTION COMMITTEE

28th Meeting 2018, Session 5

CONVENER

*Bruce Crawford (Stirling) (SNP)

DEPUTY CONVENER

*Adam Tomkins (Glasgow) (Con)

COMMITTEE MEMBERS

*Tom Arthur (Renfrewshire South) (SNP)

*Neil Bibby (West Scotland) (Lab)

*Alexander Burnett (Aberdeenshire West) (Con)

*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)

*Angela Constance (Almond Valley) (SNP)

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

*Emma Harper (South Scotland) (SNP)

*Patrick Harvie (Glasgow) (Green)

*James Kelly (Glasgow) (Lab)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Kate Forbes (Minister for Public Finance and Digital Economy)

George Henry (Transport Scotland)

Scott Mackay (Scottish Government)

Brendan Rooney (Transport Scotland)

Yvette Sheppard (Transport Scotland)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Finance and Constitution Committee

Wednesday 14 November 2018

[The Convener opened the meeting at 10:00]

Transport (Scotland) Bill: Financial Memorandum

The Convener (Bruce Crawford): Good morning and welcome to the 18th meeting in 2018 of the Finance and Constitution Committee. As usual, I ask members to put their phones into a mode that will not interfere with proceedings.

Agenda item 1 is to an evidence-taking session on the financial memorandum to the Transport (Scotland) Bill. We received 11 responses to our call for evidence, and today we will explore some of the issues that were raised in those responses.

We have been joined by the following Transport Scotland officials: Brendan Rooney, bill manager; Yvette Sheppard, environmental and sustainability manager; Peter Grant, bus policy team leader; and George Henry, parking policy manager. I welcome you all warmly to this morning's meeting. Members have received a summary of the responses to our call for views and a note from the clerk, and I propose that we go straight into questions.

I note from the written correspondence that, according to some respondents, the cost of implementing low-emission zones has been underestimated and that setting up and implementing the zones will, in reality, cost much more than has been outlined in the financial memorandum. However, others have said differently. Respondents have also pointed out the cost to hauliers of upgrading fleets in line with the requirements of the low-emission zones, saying that that cost has not been outlined in the financial memorandum.

I would like your response to those views, and I will leave it to the lead official to decide who is going to answer.

Brendan Rooney (Transport Scotland): Thanks, convener. It might be easier if I give a broad overview of how those costs were arrived at. I will then bring in Yvette Sheppard, who is more immersed in the implementation of LEZs and the alignment of costs in that respect.

With regard to the bill's provisions on low-emission zones, implementation further down the line will be subject to quite a number of variables, and that will be covered in regulations that we

make and by local authorities themselves when, in designing a scheme, they look at its geographical scope, including the roads it will cover and other such elements.

The regulations will set the national vehicles emission standard, which will dictate which vehicles are or are not compliant with the prohibitions allowed under the bill. Likewise, the technology used for detection and so on will also be set out in regulations. Some of the bill's provisions are quite framework in nature, so there will be quite a number of variables to take into account to get down to binary cost figures. The aim in the financial memorandum was to give best estimates, taking those kinds of caveats into account, so there was always going to be a cost window and an element of fluidity.

Yvette Sheppard might want to expand on the specifics of implementation and the costs that might arise.

Yvette Sheppard (Transport Scotland): The financial memorandum was based on work to support the Scottish Government's considerations with regard to introducing LEZs. As Brendan Rooney has alluded to, it is very difficult to make quantifiable predictions, because they will very much be based on the design of the LEZ, which is being carried out by local authorities at the moment.

There are a number of variables around the scale of LEZs, including the types of vehicles that will be included, the technology that will be used to enforce them and what the enforcement requirements will be. At the moment, that work is being undertaken by local authorities, so we will have more clarity not only through the provisions published in the bill itself and the regulations that will come forward but through the details of what will be designed by the local authorities. Because the LEZs are being designed and developed by local authorities to address their own specific air quality issues, the designs will vary according to the way in which air quality issues vary in the different cities and towns across Scotland.

There will be more clarity as we move forward on that. With the local authorities that are introducing LEZs, we are working closely with each of them individually and with all of them as a group to refine the costs further and get a better understanding of what they are likely to be.

The Convener: I see that two cities in particular—Aberdeen and Edinburgh—have different views on the matter. Edinburgh did not indicate any issue with the overall cost of introducing these zones, whereas Aberdeen expressed concern about it. Is that because, as you have described, they might be envisaging different solutions for their own cities and that,

therefore, there is a different cost envelope for each area? Is that what you are trying to tell me?

Yvette Sheppard: There will be a different cost envelope for each area as far as the eventual outcome is concerned. Because they are at different stages in designing their LEZs, their reflections on the issue might be different, based on their work to date. Aberdeen has expressed concern that the costings in the financial memorandum do not identify certain key things that it feels will be required to introduce LEZs, while Edinburgh has taken a different view in presuming that the scope for considering costs will be as wide as is required for delivery.

Certainly, in our dialogue with them, the local authorities both collectively and individually have not laid out any restrictions with regard to what we think they should consider in costing LEZs. Some of the things that Aberdeen has referred to have not been ruled out of the costs, so what you have pointed out might simply reflect the different stages that discussions have reached in relation to the design.

The Convener: With regard to the principle of how the LEZs are funded, please correct me if I am wrong but I am assuming that they will be funded by contributions both from the Scottish Government and from local government

Yvette Sheppard: Yes. I think that the financial memorandum talks about a collaborative approach and partnership working, with the Scottish Government bearing certain costs and the local authority bearing the cost of delivering the LEZs locally.

The Convener: Thank you. I call Alexander Burnett.

Alexander Burnett (Aberdeenshire West) (Con): Thank you very much, convener. I have a question on the methodology used with regard to the provisions on pavement parking and double parking. With regard to how you arrived at the estimated costs, you have said that there was an issue with lack of data and that you engaged with the City of Edinburgh Council and Aberdeenshire Council to get that data. However, Aberdeenshire Council has said that the figures in the memorandum for pavement and double parking do not reflect those that were provided by it. I wonder whether you can comment on that matter, given that Aberdeenshire Council, South Ayrshire Council and East Ayrshire Council are all questioning the methodology and given the huge difference between enforcing such issues in a city and in, say, rural Aberdeenshire, which I represent and where you have multiple small settlements and very different landscapes.

George Henry (Transport Scotland): No worries—I will take that. The forecasts in the

financial memorandum came from Aberdeenshire and the City of Edinburgh Council. In our stakeholder engagement, we asked all the local authorities that were part of our parking stakeholder groups whether we could work with them on developing the costs for the financial memorandum, and Aberdeenshire Council and the City of Edinburgh Council helped us with that work. We discussed the draft criteria for the national ban on pavement parking and double parking, whether there would be any exemptions, how they would be assessed et cetera and, as a result, the two councils with which we engaged know a bit more about the criteria than others.

Officials from Aberdeenshire Council submitted the figures that are in the financial memorandum, and they were regarded as the best estimate at that time. If Aberdeenshire Council now feels that the figures are not representative, I am happy to discuss that further with it. The next meeting of the parking stakeholder working group is actually on Monday, so I will raise the matter with Aberdeenshire Council then and get some clarity on it.

The Convener: We have jumped a bit in our questioning. I thought that Alexander Burnett was going to ask a question about LEZs. That is my fault—I should have asked him explicitly what he was going to ask about.

We will move back to LEZs. I call Patrick Harvie.

Patrick Harvie (Glasgow) (Green): Good morning. Before I come on to my own question, I want to follow up on the convener Bruce Crawford's question about the balance of the costs borne by the Scottish Government and those borne by local authorities. Obviously, some of the savings that will arise from LEZs, if they work, will come through their impact on health, and that will be more—though not exclusively—to do with the Scottish Government's budget than with local authorities. On the other hand, the parking provisions might lead to councils having reduced revenue, if, again, they are successful in changing the modes that people use for travelling. Is there not an argument to be made for more of the cost being borne by central Government budgets than by local government budgets, given where the savings and potential reductions in revenue might come in the future?

Yvette Sheppard: I do not think that we have identified what proportion of costs would be borne by local authorities and by central Government. The funding that we have put in place for this year is primarily to support local authorities in delivering the design of LEZs, and three of the four local authorities that have committed to introducing LEZs have taken up that funding.

The costs that have been borne by local authorities with regard to the delivery of the design and the implementation work are in terms of resource; to some extent, they are providing the staff resources to do the implementation work. Where we have a bit more clarity on the split that you have referred to, we see that that is where it tends to sit.

We need a better understanding of the implementation costs around the introduction of the zones, the infrastructure and the back-office enforcement and support systems. Again, the costs will be different for different local authorities, because they will very much depend on the scale of the LEZ.

Patrick Harvie: Will that future balance be agreed by negotiation with councils?

Yvette Sheppard: We will continue to work with the local authorities on that.

Patrick Harvie: The modelling by which some of the cost estimates have been developed has been carried out by Jacobs and set out in a report. However, although the key findings of that report have been highlighted in the financial memorandum, the report itself has not been published. Why not?

Yvette Sheppard: Technically, it is still classed as a work in progress. It was prepared to inform consideration of the introduction of LEZs.

Patrick Harvie: When it is completed, will it be published?

Yvette Sheppard: We can certainly clarify whether that will be the case.

Patrick Harvie: It would be helpful to know that. Its theoretical conclusions seem to rely heavily on the ultra-low-emission zone in London, which, as a city, is obviously very different from our cities in Scotland. Even in our biggest city, where they might be considering what has been described as a large low-emission zone, you would not be talking about a density of traffic as high as that in London before the introduction of its congestion charge. Some of the most polluted parts of Glasgow, such as Great Western Road, Dumbarton Road or along the expressway, might be covered by a low-emission zone, which means that its shape might be rather different from a blob in the middle of the city centre. Is it a bit of a stretch to say that you can just scale down the ultra-low-emission zone in London, given that the different shape or configuration required in Glasgow might result in a very different ratio between the amount of work needed to administer the thing and the proportion of vehicles in the city that it might capture?

Yvette Sheppard: Yes. The information in the financial memorandum comes out of the work

done by Jacobs, which made heavy use of the data from the London low-emission zone. It also looked at work by Edinburgh and Glasgow on the potential introduction of LEZs in a Scottish context, previous air quality management work that it had done and information from other European LEZs, but it focused on the work that had been done in London.

It all reflects the indicative nature of the costs included in the financial memorandum, which are best estimates based on data that we have and a series of reasonable assumptions around the likely outcomes of LEZs. Ultimately, those costs will be dependent upon the LEZ design and a fair amount of variability could come out of the approaches taken by different cities, given that they are being encouraged to consider local solutions to their air quality issues. As you have said, that might result in very different LEZs in different cities and different costs associated with that.

Patrick Harvie: I should have declared an interest, convener, as I live in Dumbarton Road in the middle of one of the air quality management areas.

The Convener: You are not getting to ask any more questions, then.

Patrick Harvie: Finally, if you have made a best-faith attempt to construct costings for a Government bill but acknowledge that those are not the actual costs that will emerge—and if Parliament agrees the financial memorandum to ensure that we get the funding in place to meet those costs, even though they are unlikely to be the figures in this document—what general approach do you then take to revise what has been agreed?

10:15

Yvette Sheppard: It is founded mainly on the work that we are doing. Our approach to the four cities that have made the commitment to LEZs is based on partnership working and collaboration, and we are working very closely with them individually as part of their delivery groups and collectively through the leadership group and the consistency group to better understand the costs as the designs emerge and to track any increase in clarity in that respect. The approach also allows us to identify with the local authorities collectively how to get the best efficiencies and the best value for the money that we invest, particularly in the infrastructure. We will continue to work with the local authorities to understand the emerging designs, and that will help give clarity on the actual costs and play a big part in shaping the funding packages.

The Convener: Angela Constance has a supplementary in this area.

Angela Constance (Almond Valley) (SNP): Good morning. Like other members, I am looking at this 46-page financial memorandum and resting on best estimates with regard to costs. Can you say a bit more about the feasibility studies that were conducted not just in Scotland but in England? Do their findings complement the work undertaken by Jacobs and the 11 submissions that this committee has received—which I appreciate is not a large number? Are the feasibility studies, the work done by Jacobs and the written information that the committee has received all pulling in different directions, or is there actually some point of convergence?

Yvette Sheppard: Given that the feasibility studies, particularly with regard to Scotland, were done some time ago, there is not necessarily any parity in relation to what exactly they were looking at. Although the models that they were looking at were similar, they were not necessarily the same as those that we would be introducing. The financial memorandum mentions the variability in the costs for the automatic number plate recognition camera systems; indeed, there is quite a range of costs in that respect. Jacobs came up with a cost of around £20,000, while in the Edinburgh feasibility study, the camera costs were around £37,000.

Again, in our work with the local authorities, we are coming up with different sets of figures for this element. They do not contradict the work undertaken by Jacobs, but the alignment is not necessarily identical, which partly reflects the fact that the different studies have made different assumptions about the LEZ, the scope of the vehicles covered, the geographic spread and so on.

Angela Constance: The financial memorandum mentions an optimism bias of 44 per cent and an assumption of 10 per cent risk on year 1 costs. Is that the norm, or is it quite a generous calculation?

Yvette Sheppard: That is not something I can comment on directly, but I think that it aligns with the general approach that we would take in relation to transport projects. It does not seem particularly out of kilter with the approach that we would normally adopt, but we can certainly clarify that and come back to the committee, if that would be useful.

Angela Constance: Okay. You have helpfully described your on-going work and dialogue with local authorities, but I could not find in the papers any formal response from the Convention of Scottish Local Authorities. Has there been a written response from COSLA?

Brendan Rooney: COSLA has submitted a written response to the lead committee on the bill in its entirety. As for the call for evidence from this

committee, there has not been a response directly from COSLA.

Angela Constance: What about the Government's consultation on the bill?

Brendan Rooney: The Government did not consult on the bill in its entirety. Instead, it had a series of consultations, because it is quite a multi-topic broad-scope bill. I am afraid that I do not have in front of me information on whether COSLA responded directly in writing, but I do know—and Yvette Sheppard has already alluded to this—a lot of engagement is happening with local authorities and with COSLA.

Angela Constance: Finally, notwithstanding the fact that many of the costs will depend on design and implementation, some actions will be within the gift of the Scottish Government, while a lot will also depend on the actions taken by our partners in local government. The norm for any new burden is for it to be factored into matters as they proceed, so am I not right in saying that any new burdens on local government will have to be accommodated financially by the Scottish Government within its block grant?

Brendan Rooney: Yes. That is my understanding of the agreement with COSLA with regard to any new burdens that are set via legislation. Some of the joint commitment on low-emission zones stems from the programme for government commitment made by the Scottish Government with regard to the key four cities. Those are the ones that are being looked at in the short term. Whether other local authorities subsequently choose to implement low-emission zones further down the line is not mandated via the bill.

Murdo Fraser (Mid Scotland and Fife) (Con): I would like to ask about the potential impact of LEZs on small businesses and a concern that the Federation of Small Businesses and others have raised with me. A self-employed tradesman, for example, might be buzzing in and out of an LEZ in a diesel van that is five or six years old and does not meet the requirements, and that could impact on the operation of that very small business. Has any specific work been done for the financial memorandum on the likely impact on very small businesses such as that?

Yvette Sheppard: There has not been any specific work done in relation to small businesses. We have been having fairly extensive engagement with the FSB, trade bodies and chambers of commerce to try to understand broadly what the issues are for their members. We had the consultation on building Scotland's low-emission zones, and we have taken account of responses to that, but there is no quantified cost associated

with the impact on small businesses to present in the financial memorandum.

Murdo Fraser: In the bill and in the financial memorandum there are proposals for potential grant schemes that might be able to assist. How will such grants be able to assist a small business that is impacted by LEZs?

Yvette Sheppard: The most recent programme for government included the creation of a low-emission zone support fund, and we are currently looking at how that could support a range of cohorts affected by the introduction of LEZs. That includes users of light goods vehicles, which are the vehicles predominantly used by small businesses. Work is under way to look at how the cohorts who would find it the most difficult to comply with the requirements could be best supported through the introduction of LEZs.

Murdo Fraser: When will we get a clearer picture of how all that will be finalised?

Yvette Sheppard: We are targeting the LEZ support fund details for April 2019. There is overlap with the issues of how the LEZs are designed by local authorities. Obviously, Glasgow has come forward with proposals that would see all vehicle types included within its LEZ requirements. That stage has not yet been reached for Dundee, Aberdeen or Edinburgh, so we are not certain which cohorts of vehicles would be most affected by LEZs at this stage. There is obviously the potential for different decisions to be taken in different cities, depending on which vehicles are deemed to be the ones that are impacting on air quality. In terms of the impact on small businesses, there is an element of variability that is related to the design of the LEZs, which we will be clearer on as we move forward.

James Kelly (Glasgow) (Lab): One of the aspects of LEZs that relates to bus operators is the cost of retrofitting. First has stated that the cost of retrofitting a bus would be £25,000. If it did that for its whole fleet, it would cost £5.8 million. If there are additional costs like that, they may be passed on to passengers through higher fares, and you may see reductions in bus routes. Did you take that into account in the financial memorandum when you looked at what public funding support will be available to bus companies that retrofit?

Yvette Sheppard: The scenarios from the Jacobs work in the financial memorandum include an allowance for supporting bus operators to become compliant. The costs presented are a mixture of retrofit and scrappage for older vehicles that may be reaching the end of their life for reasons other than the LEZ. Those things are included in the costs in the financial memorandum.

Taking that forward in a practical sense, in relation to the policy rather than the bill, a bus emissions abatement retrofit programme is under way for the LEZs that are already in play. Phase 2 of that programme was launched a few weeks ago and it offers support for retrofit and scrappage for those bus operators that are going to have to meet LEZ requirements.

James Kelly: You might not have the figures to hand but, roughly, what kind of percentage of support is available to a bus operator if they are taking part in a retrofitting programme?

Yvette Sheppard: The BEAR phase 2 scheme will offer to large operators 40 per cent of the total cost of retrofit, rising to 60 per cent for smaller operators. That includes the costs of the kit itself, its installation and ancillary costs—the other costs of retrofitted vehicle operation, such as telematics and maintenance—for up to five years. Large operators will be offered 40 per cent of those costs. The actual cost to a bus operator will vary because it will depend upon the contractual arrangements that they make with whichever partner in the industry that they choose to go with for retrofit.

James Kelly: I appreciate the contribution that you have outlined and I appreciate that there must be a balance. Has any account been taken of the fact that, because of the increased costs for bus operators, they may reduce the number of bus routes? That might conflict with the bill's policy objective of lowering emissions, because if people are not able to go on bus routes, they may take their cars.

Yvette Sheppard: That is not in the financial memorandum. It does not reflect that. I am not sure that we would have an understanding of the potential costs associated with that at this stage. We are obviously engaging with the bus industry around LEZs more generally and on the financial implications in particular.

The Convener: Patrick Harvie and Tom Arthur have supplementaries.

Patrick Harvie: I do not think that anybody would have a huge problem with agreeing that there are uncertainties around many aspects of the bill, including the costing. The Scottish Government says that it is committed to introducing low-emission zones in Scotland's four biggest cities over the next couple of years. If one of the local authorities comes back and says that some aspect of the uncertainty means that it is not able to go ahead—whether it is on the grounds of costs or anything else—is the Government's position that it will solve that problem and ensure that the low-emission zone goes ahead? That might be one to put to ministers. If that is appropriate, perhaps you could pass that on.

Yvette Sheppard: Yes.

The Convener: I think that that was a nod to say that she is going to pass it on.

Is your question on LEZs as well, Tom?

Tom Arthur (Renfrewshire South) (SNP): It is. An issue that is clearly very topical is the challenges faced by the high street, from both online retailers and out-of-town shopping centres. If LEZs are successful in their objectives, they will reduce congestion and increase air quality, which may make it a more attractive proposition to shop in a town or city centre. Has any work been undertaken as part of this process to assess what impact that may have on economic activity and any benefit that could be accrued by local authorities as a consequence?

Yvette Sheppard: No, there has not been any work to quantify that. We are in dialogue with chambers of commerce across the four cities and at a national level to help to understand their issues and any concerns that they have, but no work has been undertaken to quantify the potential economic benefit.

The Convener: Thanks, Yvette, for dealing with all those questions on LEZs. We are going to let you off the hook a bit now and go on to pavements.

10:30

Emma Harper (South Scotland) (SNP): Good morning, everybody. I am interested in pavement parking and double parking, how you cost enforcement and how you make the financial memorandum statements accurate. I read in our brief that South Ayrshire Council, East Ayrshire Council and South Lanarkshire Council, which are all in the South Scotland region, are saying that there is a financial burden relating to the enforcement of pavement parking and double parking restrictions. They believe that making local exemptions could mean that the costs could escalate substantially from the estimates in the financial memorandum. Has any further detailed work been carried out to create a more accurate and up-to-date view of the costs of implementing and enforcing pavement parking restrictions and making exemptions?

Brendan Rooney: Obviously, the policy is about making our roads and pavements accessible for all. The policy intention is very much about changing people's behaviours around parking on footways and so on. It is very difficult for us to cost the assessment and, particularly, the implementation, with the potential number of exemptions that local authorities may wish to promote.

We are continuing to work with local authorities and COSLA, through our parking standards working group, to develop more robust costs for each of the respective areas. As I said previously, two of the local authority areas that offered to work with us on the costs know a bit more about the criteria to which we are implementing. The assessment and implementation are on-going. We provided the best estimates when the bill was introduced and we are very much committed to working with local authorities and COSLA to develop more robust costs for each of the areas as we move forward through the parliamentary process.

Emma Harper: You said that there is a parking standards working group meeting coming up soon. Is the financial impact on local authorities part of your on-going discussion?

Brendan Rooney: It very much is. We have asked all local authorities to join us for the meeting, which takes place on Monday, and we have good representation. That group is talking about the exact criteria for footway widths and carriageway widths, what should be available for footway parking to exist, and what will allow an exemption to be made. We will talk about the costs around that as we go through that process.

Emma Harper: Each local authority needs to map out where their pavements are, so that they can feed into that assessment. There will be variables in some areas.

Brendan Rooney: Yes. Understandably, local circumstances will vary, which makes the assessments difficult on a national basis. That is why we need the local authorities to join us at the group to look at the criteria against which they will carry out their assessments and provide the financial figures, which will give us more robust costs for moving forward.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): My question is on the same issue. Will you clarify the estimates that you have provided of £40,000 for Edinburgh and £10,000 for Aberdeen? There has been disagreement on that, particularly from East Ayrshire Council, which is my local authority. Is that the cost of assessing the issue or implementing the measures?

Brendan Rooney: That was the cost of assessing. We know that footway parking exists in a number of areas, because a number of complaints come through local authorities. They know where the footway parking problems exist and how they wish to address them. When we worked with local authorities in the development of the financial memorandum, it was purely around the assessment of the issue. It remains to be seen whether they will choose to promote exemptions on those streets to allow footway parking while still

ensuring that there is enough space for pedestrians, wheelchair users and families with prams to use the footways for the purpose that they are there for. They will have to go through the assessment process.

We looked at flexibility in the way that local authorities can carry out assessments, so they may not necessarily need to do full site visits for each area. People may be able to use inventory databases and other technologies to do desktop studies to identify where footway parking is a problem, first and foremost, and then do site visits after that.

Willie Coffey: If we suppose that, as East Ayrshire Council says, the number of locations ends up being much more than has been estimated—it could be 20 or 30 locations, for example—what will that mean for the implementation costs? Is there any estimate in the financial memorandum about the actual implementation costs?

Brendan Rooney: We have certainly tried to minimise the implementation costs as much as possible. The signs that will be required to allow footway parking to exist already exist—they are already approved in the Traffic Signs Regulations and General Directions 2016. Those signs could go on existing street furniture, so there might not be a requirement to put in new street furniture, such as poles. There would be white lines to mark out bays on footways where people would be allowed to park. We have tried to have as an efficient process as possible, and cost-effective measures that are not too expensive for local authorities to put in.

The Convener: I thank the bill team for giving us their evidence this morning. You were very candid about the challenges that you face and very knowledgeable about the responses that we got. The clerks will now draft a letter to send to the lead committee.

I suspend this meeting to allow the changeover of witnesses.

10:36

Meeting suspended.

10:38

On resuming—

Subordinate Legislation

Budget (Scotland) Act 2018 Amendment Regulations 2018 [Draft]

The Convener: The second item on today's agenda is to consider a Scottish statutory instrument that provides for the 2018 autumn budget revision. Before we come to the motion on approval under agenda item 3, we will have an evidence session on the order. We are joined by Kate Forbes, the Minister for Public Finance and Digital Economy, who is accompanied by Scott Mackay of the Scottish Government. I welcome the minister to the committee for her first appearance before it, and I invite her to make an opening statement.

The Minister for Public Finance and Digital Economy (Kate Forbes): Thank you very much. It took a promotion to be allowed back on this committee, so it is great to be here.

As the committee will know, the autumn budget revision provides the first of two opportunities to formally amend the Scottish budget for 2018-19. In order to assist the committee with its scrutiny, I have provided a brief guide to the autumn budget revision, which has been prepared by my officials and which sets out the background to and details of the main changes proposed. I hope that the committee has found that document useful.

As members will know, the First Minister announced a restructuring of the Scottish Administration. Table 1.1 of the autumn budget revision supporting document provides a full reconciliation between the former Scottish Government portfolios and the new Scottish Government structure.

This year's ABR deals with four different types of amendments to the budget: first, a couple of funding changes; secondly, a couple of technical adjustments that have no impact on spending power; thirdly a small number of Whitehall transfers; and, finally, some budget-neutral transfers of resources between portfolio budgets. The net impact of those changes is an increase in the approved budget of £7.3 million to £40,505.9 million. Table 1.2 on page 5 of the supporting document shows the approved portfolio budgets following the changes sought in the ABR.

The supporting document that officials have prepared provides background on the net changes. I will briefly sketch out those changes. The first set includes the deployment of funding across multiple portfolios to cover European Union exit activity, additional funds for the Scottish

Futures Trust for the schools for the future initiative, and further funding for raising attainment. In total, those changes increase the budget by £32.1 million.

The second set of changes comprises a small number of technical adjustments to the budget, with a net impact of £31.2 million on the aggregate position. The adjustments are necessary to ensure the budget is consistent with accounting requirements and with the final outturn that will be reported in our annual accounts. The main technical adjustment is the removal from budgets of £31 million of interest and repayments on capital borrowing. Those should be routed directly through the Scottish consolidated fund, rather than through Scottish Government accounts as per legislation set out in the Scotland Act 1998, which states that amounts required for the repayment of principal and payment of interest on sums borrowed are to be charged on the Scottish consolidated fund.

With regard to Whitehall transfers and allocations from Treasury, there is a net positive impact on the budget of £6.5 million in relation to small transfers, which are all listed in the supporting documents.

The final part of the budget revision concerns the transfer of funds within and between portfolios to better align the budgets with profiled spend. As in past years, there are a number of internal portfolio transfers that have no effect on portfolio totals but which ensure that internal budgets are monitored and managed effectively. The main transfers between portfolios are noted in the ABR supporting document and the guide.

As we move towards the financial year end, we will continue, in line with our normal practice, to monitor forecast outturn against budget and, wherever possible, seek to utilise any emerging underspend to ensure that we make optimum use of the resources available in 2018-19 and to proactively manage the flexibility provided under the fiscal framework agreement between Treasury and the Scottish Government.

I shall provide the committee with a mid-year report on revenue and spending to date alongside the spring budget revision, when published, to improve the transparency of the budget management process and decisions that are taken in year, which is in line with the budget process review group recommendations.

The Convener: Thank you, minister—that is helpful.

My question does not specifically relate to any of the areas that you have raised. It is on table 1.8a in the budget revision document, which is on funding reconciliations and issues to do with the reserve. I am curious about the Government's

position on the reserve. To what extent is the purpose of the reserve to allow the Government to draw down additional funds for public expenditure, and to what extent is it about a need to build up funds to address any potential shortfall that might arise from tax forecast errors that may emerge? The committee has been interested in the issue of tax forecast errors, so an understanding of the Government's position on that would be useful to us as part of this exercise.

Kate Forbes: Table 1.8a is a relatively new addition, and I hope that members found it useful in improving transparency. Of course, the Scotland Act 2016 powers allow the Scottish Government to build up funds when possible. That serves a number of purposes, some of which the convener has set out. They are to address unforeseen budget pressures, to manage the obvious volatility in tax receipts and shortfalls in forecast related to forecast error, and to smooth all types of spending. The Scottish Government has previously made clear that it intends to build up the balance in the reserve over time, as resources allow, in order to have a financial cushion available to it and to prudently manage that underspend across financial years. That is particularly important with greater powers over taxation and the obvious volatility that comes with tax receipts.

Of course, the Scottish Government cannot overspend its budget, so it is prudent to manage the budget over a number of years, which has been endorsed by the Auditor General for Scotland.

10:45

The Convener: The bottom line in the table is that £197.7 million is available for future deployment. Is at least part of that, and perhaps a significant part, the money that the Government is going to put away for a potential rainy day? Is that the intent of that future deployment cash?

Kate Forbes: Indeed. The sum that is available for future deployment can be carried forward, but obviously those figures will be seen more clearly when the Scottish Government publishes its draft budget on 12 December.

Murdo Fraser: Good morning, minister. I want to ask about one of the internal transfers that feature in the order. There is a transfer of £58 million from the health and sport budget to the education and skills budget in respect of nursery and midwifery education. Similar transfers have recurred annually in the accounts since I think 2008-09. Given that the transfer appears in the accounts every year, would it not make more sense just to have the money as permanently part of the education and skills budget rather than the

health budget? I raised the issue at this time last year with the cabinet secretary when he was sitting where you are now, minister. He said that I had made a valid point, but I see that nothing has changed, so perhaps it is time to reconsider.

Kate Forbes: It is a very valid point. I recognise that the committee has asked the question a number of times. In my preparation for this committee appearance, it is one that I asked, too. It is obviously an annual transfer.

I have a few quick points in response. The money is initially allocated to the ministerial portfolio where the policy decisions are taken and where there is ministerial responsibility, and it is then transferred to the portfolio where the spending occurs. Any changes to policy would impact on the health budget and savings would come to that budget. That is the way that it has been done for years, and again this year, which ensures consistency and transparency. Where there are policy changes or savings, those flow to the health budget but, of course, it is education's responsibility to deploy the money through the Scottish Further and Higher Education Funding Council.

It is a valid point. I have asked the same question and am satisfied that the approach is the best way of doing it to ensure transparency and consistency, because the money is allocated initially to the portfolio minister who is responsible, who is Jeane Freeman as Cabinet Secretary for Health and Sport.

Murdo Fraser: Despite everything that you have said about transparency, would it not be more transparent to present the money as part of the education and skills budget? Your way of presenting it in effect shows the health and sport budget as substantially higher, to the tune of nearly £60 million, than the actual spend at the year end. We know that it happens annually. Would it not improve transparency if you were to change the way this is presented?

Kate Forbes: I take that point. The important point is to ensure that we are completely up front and transparent, particularly when it comes to the autumn and spring budget revisions, on where the lines are, where responsibility lies and where spending actually happens. If there are additional points on ways in which we can improve transparency, I would be very happy to consider those.

The way that it has been done for years has happened for years because, so long as there is transparency over the budget revision, and so long as the committee and others can see where responsibility lies and where spending happens, that meets the requirement for transparency.

Emma Harper: I have a supplementary question. I think that it is actually quite transparent to see that the £58 million goes from health and sport to education. I probably should declare that I am a nurse. The transfer allows us to see that the money is specifically spent on education for nurses and midwifery, rather than going somewhere else within the education portfolio.

Kate Forbes: It comes back to the point about the importance of the budget revision, and the importance of my officials and me providing the committee with as much information as possible so that it can track the changes. I accept that the question will probably be raised every year, and we may sound a bit like a broken record, but it means that the committee has full sight on internal transfers, which, at the end of the day, are budget neutral.

The Convener: Because of assiduous people such as Murdo Fraser, it is probably the most transparent bit of the whole Scottish Government budget, because we ask the question every year. If I have it right, the transfer is about ensuring the outcomes for health. In effect, it provides a mechanism for the health department to get the money spent in the area that it thinks is needed to deliver the required number of nurses and midwives.

Kate Forbes: Absolutely. It goes back to my point that changes in the policy would have an impact on health. Where there might be savings in the policy, that would have an impact on health. That is why it is a health line and is then moved during the year.

The Convener: James Kelly has a question on a slightly different issue.

James Kelly: It is again to do with transfers, but this time from the social security and older people budget to the communities and local government budget. There are three transfers, coming to about £102 million. Will you give a bit more detail on that?

Kate Forbes: Yes. Is that the £37.9 million, the £12.1 million and the £5 million?

James Kelly: There is £52.1 million in relation to the bedroom tax, £37.9 million for the Scottish welfare fund and £12.1 million in mitigation and welfare reforms.

Kate Forbes: I will take them one by one. The £52 million is a transfer to meet a manifesto commitment to fully mitigate the bedroom tax. That is clear. The £37.9 million relates to the Scottish welfare fund, which was established in April 2013 after the United Kingdom Government's decision to abolish two elements of the social fund—community care grants and crisis loans. The powers and funding were devolved to the other

Administrations within the UK. It was at each Administration's discretion whether to continue to have a fund and how it would be administered. That is a transfer to local government to fund the delivery. Last but not least, the £12.1 million is to provide funding to local authorities for non-bedroom tax discretionary housing payments. DHPs are administered by the local authorities and are obviously a key element of the wider mitigation of UK welfare reform.

James Kelly: Are they one-off transfers for this year or will the budget line continue in future years?

Kate Forbes: I was not in this role last year, but my understanding is that this is not the only year. It is a regular transfer. This is the same challenge as I mentioned previously. The ministerial responsibility and impact lie with the social security and older people budget line, but delivery is through local government.

James Kelly: You will be aware that, in the upcoming budget, there will be a big focus on local government funding, as there has been in all budgets in recent years. How will you ensure transparency in the allocations? One of the key issues will be baselining back to last year's local government settlement, so we do not want any misunderstanding about the figures before we get into the political discussion. How will you ensure transparency on the figures in relation to the allocations?

Kate Forbes: It is a valid point. I hope that this discussion is improving the transparency around where budget lines will be shown on 12 December and through the budget stages and then in the budget revision. Because ministerial responsibility for those budgets lies with the Cabinet Secretary for Social Security and Older People, the lines will be included in her budget allocation. Obviously, because deployment is through local government, revisions will happen throughout the year.

Scott Mackay wants to come in.

Scott Mackay (Scottish Government): I just want to say that a couple of tables were added in the budget document last year to try to add a bit of clarity on the overall local government position. Forthcoming transfers form part of that and we will certainly try to maintain that improved clarity on the totality of the local government settlement in the forthcoming budget document.

James Kelly: It is important that we all have a consistent understanding of the figures before we get into any further discussion.

The Convener: There is going to be further discussion of local government? My goodness.

Willie Coffey: I seek clarification on the technical transfer of £31.2 million, which as I

understand it is to cover interest on and repayments of loans. Can you confirm that the overall effect of that is cost neutral in the budget? At first sight, someone might think, "Oh, no, we're losing £31 million," but that money surely would always have to have been set aside at some point. Is this simply an accounting manoeuvre to put the money in the correct place in the accounts?

Kate Forbes: I can assure you that those technical adjustments are budget neutral. 2017-18 was the first year that the Scottish Government actually undertook cash borrowing from the national loans fund. Previously, it was a notional borrowing arrangement agreed with Her Majesty's Treasury.

The Scotland Act 1998 explicitly states that the amount that is required for repayment of principal and interest should be charged on the Scottish consolidated fund, so it needs to be removed from the Scottish budgets and administered centrally, and it is reported through the Scottish consolidated fund accounts. Those details will be shown in the budget supporting document. I recognise that this is a first, so we will ensure that any documentation that is published with the budget transparently reports that.

Willie Coffey: So that will be clearly indicated in the consolidated fund account in future.

Kate Forbes: Yes.

Neil Bibby (West Scotland) (Lab): Good morning, minister. In terms of internal transfers, there is movement to the higher education student support budget totalling £28.2 million. How will that money be spent? There is also £16.8 million for the widening access fund, for additional places. How many places might that fund provide?

Kate Forbes: The widening access fund started in 2013-14 as part of a four-year phased approach to increase student numbers. It has now reached a steady state and the transfer is agreed based on the total places each year. The transfer covers fees and bursaries for 8,200 places in total.

Neil Bibby: Can you provide a breakdown of which institutions benefit from the transfer?

Kate Forbes: I do not have the breakdown to hand, but I know that £16.8 million from the SFC budget funds additional student places for widening access. I can provide the member with more of a breakdown if he is interested.

Neil Bibby: That would be helpful. Thank you.

The Convener: As there are no more questions, we move to agenda item 3, which is consideration of the motion on the order. I invite the minister to move motion S5M-14433.

Motion moved,

That the Finance and Constitution Committee recommends that the Budget (Scotland) Act 2018 Amendment Regulations 2018 [draft] be approved.—[*Kate Forbes*]

Motion agreed to.

The Convener: The committee will publish a short report to Parliament setting out our decision on the order. I thank everyone and close this meeting.

Meeting closed at 11:00.

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