



OFFICIAL REPORT
AITHISG OIFIGEIL

Finance and Public Administration Committee

Tuesday 4 October 2022

Session 6



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FINANCE AND PUBLIC ADMINISTRATION COMMITTEE
25th Meeting 2022, Session 6

CONVENER

Kenneth Gibson (Cunninghame North) (SNP)

DEPUTY CONVENER

*Daniel Johnson (Edinburgh Southern) (Lab)

COMMITTEE MEMBERS

*Ross Greer (West Scotland) (Green)

*Douglas Lumsden (North East Scotland) (Con)

*John Mason (Glasgow Shettleston) (SNP)

*Liz Smith (Mid Scotland and Fife) (Con)

*Michelle Thomson (Falkirk East) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Gary Gillespie (Scottish Government)

Scott Mackay (Scottish Government)

Andrew Scott (Scottish Government)

John Swinney (Deputy First Minister and Cabinet Secretary for Covid Recovery)

CLERK TO THE COMMITTEE

Joanne McNaughton

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament
Finance and Public
Administration Committee

Tuesday 4 October 2022

[The Convener opened the meeting at 09:30]

**Decision on Taking Business in
Private**

The Deputy Convener (Daniel Johnson): Good morning, and welcome to the 25th meeting in 2022 of the Finance and Public Administration Committee. I am in the chair this morning because the convener, Kenneth Gibson, has had a family bereavement. I am sure that I speak on behalf of the whole committee when I express our condolences at this difficult time for him and his family.

Under agenda item 1, does the committee agree to take item 3, which is consideration of draft correspondence, in private?

Members *indicated agreement.*

Public Finances 2023-24
(Impact of Cost of Living and
Public Service Reform)

09:30

The Deputy Convener: The next item on our agenda is an evidence session with the Deputy First Minister and Cabinet Secretary for Covid Recovery on Scotland's public finances in 2023-24, as part of our pre-budget scrutiny. Mr Swinney is joined by officials from the Scottish Government—Andrew Scott, director of tax and revenues; Gary Gillespie, chief economist; and Scott Mackay, head of fiscal management and strategy. I welcome you all to the meeting and invite Mr Swinney to make a short opening statement.

The Deputy First Minister and Cabinet Secretary for Covid Recovery (John Swinney): Thank you, convener. I add my comments to yours in relation to the bereavement that Mr Gibson has experienced, and I send my sympathies to him and his family.

I welcome the opportunity to meet the committee to discuss the pre-budget scrutiny of the 2023-24 budget and issues in relation to the public finances. The preparation for the budget takes place against a challenging and highly volatile landscape with significant implications for our fiscal approach. From the Covid pandemic to Russia's illegal war in Ukraine and rising inflation, we are in the midst of a cost crisis that is having profound impacts on households and businesses across the country, as well as creating significant strain on the public finances.

That cost crisis has now been exacerbated by the United Kingdom Government's mini-budget, which involved substantial unfunded tax cuts, led to rises in mortgage costs, sparked turmoil in the economy and has been described as

"the worst unforced economic policy error"

in a

"lifetime".

I wrote to the committee yesterday to share the Treasury's latest estimates of the block grant adjustment impact of the cuts to income tax and stamp duty land tax, which imply a £540 million net benefit to the Scottish budget over three years, including this financial year. In the space of just 10 days, that estimate has fallen from £660 million, which is a fall of 18 per cent.

As the committee is aware, those estimates should be treated with a significant degree of caution because they are not informed by independent forecasts from the Office for Budget

Responsibility. They also assume that Scottish tax policy will remain unchanged. However, the United Kingdom Government's mini-budget poses important questions for our devolved taxes policies. My judgment is that we need to take the appropriate time and care to consider those implications as part of our annual budget process. As part of that work, I have established an expert panel of economists who will assess the impact on Scotland of the Chancellor of the Exchequer's fiscal approach.

It is also essential that we engage more broadly on the tax and spending choices that are before us, including our commitments, priorities and values as a Government. Alongside the review, I will therefore publish a discussion paper to encourage public engagement on those important and difficult choices on tax and public expenditure.

The committee will be aware that the Office for Budget Responsibility is now expected to publish its forecast earlier than the originally proposed date of 23 November. The OBR forecasts are crucial to our budget planning and they will allow Scotland's block grant adjustments for 2023-24 to be calculated. Those forecasts will inform our approach to setting the Scottish budget and will provide information to the Scottish Fiscal Commission to inform its independent forecast. It is vital that we base our budget decisions on high-quality information, and I am unreservedly committed to doing exactly that.

I am keen to discuss and agree with the committee a timetable for that work on the budget, and we will do that in due course. The committee will also be aware that I am expecting to conclude the Scottish Government's emergency budget review in late October, the purpose of which is to identify any further resources that could be deployed to assist those who face hardship in these challenging days. I look forward to addressing any questions that the committee has.

The Deputy Convener: Thank you, Deputy First Minister. One of the key reflections that we must all have is that it is critical to have clarity on and an understanding of the impact of budget statements and actions ahead of time. I recognise that there have been some changes in recent days and weeks. Can you clarify what we should be expecting?

On the basis of the correspondence that the committee has had from the Scottish Government, my understanding is that its emergency budget response will be published on 24 October. Is that still the intended timing? Will the response be focused purely on changes to this year's budget? Does the announcement that has been made in the past day on the bringing forward of the OBR's forecasts for the UK Government's budget

decisions have implications for the timing of the Scottish budget?

John Swinney: I intend to come back to the Parliament in the week commencing 24 October—the particular date is to be confirmed—to set out the emergency budget review's conclusions. My view at this stage is that the response will focus on this financial year only and on any measures that the Government can take to support those who are facing difficulty. It will also wrestle with the in-year financial challenges that I set out to the Parliament in my statement on 7 September, which have arisen primarily because of the significant inflationary pressures and the pay deals that are coming in at higher amounts than we anticipated.

The timescale for the Scottish Government's budget is an emerging picture. As we speak, we are in a position where—this is my understanding, but I do not think that it has been publicly confirmed yet—the UK Government will accelerate the information that was expected to be published on 23 November. We have been assuming that, if that information is available on 23 November, we will be able to produce a budget for the Scottish Parliament prior to the Christmas recess. The steps that will need to be taken for budget scrutiny and the timetabling of that will be the subject of dialogue with the committee. However, if that information is published earlier, it will provide us with a bit more time and certainty about our ability to produce a budget before Christmas.

Under our normal protocols, we are required to give the Scottish Fiscal Commission 10 weeks' notice of a budget event. If we wanted our budget to be announced on 15 December, we would have to give a notification by this Thursday. The deadline for 8 December has gone if we are to satisfy the 10-week notice period. From the question that you posed, convener, I assume that you share my view that we should go through the normal sequence of events, taking independent advice and getting the information that we should have, which will require us to give the Scottish Fiscal Commission 10 weeks' notice.

The other point, which I make for completeness, is that I am not certain about the information that we will have available to us. If we receive OBR estimates, we will get estimates of what the block grant adjustment will be. However, I do not know what information we will have about spending or whether the fiscal statement that we will get from the United Kingdom Government sometime in the next few weeks will give us sufficient clarity on whether there will be any revision to the assumptions that we will make, based on a comprehensive spending review.

In all honesty, I cannot see how the comprehensive spending review numbers can be

sustained given that there have been £43 billion in unfunded tax cuts and that there is market turmoil. If such turmoil is to be addressed and the £43 billion-worth of tax cuts are to be sustained, rebalancing measures will have to be taken. I fear that those will involve cuts to public expenditure, which will have an impact on the Scottish Government's budget and on the assumptions that would be in the resource spending review.

The Deputy Convener: Thank you, Deputy First Minister. I agree with your position that, as far as possible, we should carry on with our usual budget processes. Consistency, clarity and certainty are all vital components of prudent and responsible budget setting.

I want to ask about a couple of points for clarification. Has the Government had communication or correspondence with the Scottish Fiscal Commission regarding the level of data that it has, or expects to have, and whether it feels equipped to carry out the budget forecast?

Also, you questioned whether the UK Government's fiscal plans might need revising. Are there thoughts about potentially having to revise the Scottish Government's resource spending review in the light of UK Government fiscal changes, and is there a mechanism for doing so?

John Swinney: In relation to dialogue with the Scottish Fiscal Commission, I had a discussion with its chair quite recently in which we reflected on those uncertainties, but not with any certainty of our own about the information that might be available to us. My officials are in regular discussion with the Scottish Fiscal Commission to ensure that, as far as possible, we are in a position to satisfy our full obligations on the provision of information. As I said in my opening statement, I am wholly committed to ensuring that we carry out that exercise properly and fully, as is envisaged by statute and by agreement with the Scottish Fiscal Commission.

There is a bit of a moving picture as to the information that we might have available to us. We will only have answers to those questions based on whatever material is published by the United Kingdom Government and the certainties that it would have. As things stand, based on conversations that are now about two weeks old, I am fairly confident that we will not have a United Kingdom Government budget before we have a Scottish Government one. We will therefore be dependent on the information that comes out from the further fiscal statement that is expected in the next few weeks.

On potential revisions, we have set out the resource spending review, which is an indicative direction of travel on public expenditure based on

the comprehensive spending review and our assessment of appropriate block grant adjustments. Obviously, the review does not translate into a budget, which is the exercise that we are about to undertake for 2023-24. If there is a change to the content of the UK Government's spending plans for the next financial year—which, as I said in my previous answer, I fear will be the case because of the unfunded tax cuts and the market turmoil that is being experienced—that could have an effect.

The committee will be familiar with the fact that the choices that are made by the United Kingdom Government can have different impacts on our budget. A significant reduction in social security expenditure will not necessarily have a direct impact on the Scottish Government's budget, although it certainly would have an indirect effect on the challenges that we face. However, reductions in English departmental expenditure, such as on health, education and local government, would have a direct impact on public expenditure in Scotland.

The committee will also be familiar with the fact that ministers are obliged to balance the budget, so we would have to take decisions based on the appropriate balance between taxation and public expenditure in the light of the data that had become apparent and the block grant adjustments that would follow from that.

09:45

The Deputy Convener: I have a final question before I hand over to colleagues. The committee has been taking evidence from a broad range of bodies and stakeholders in recent weeks. To my mind, one of the most significant insights came from the Auditor General, who highlighted the fact that the total payroll for the Scottish Government across the public sector is around £22 billion, which, in crude terms, is half the Scottish budget. The head count increased by around 15,000 during Covid, and the Government has set out the fact that it intends to bring the head count back to pre-Covid levels, although it will protect the national health service.

We have had those broad statements, but it strikes me that, with regard to the pressures, managing that payroll is critical. We also know that the medium-term financial strategy assumed that, in essence, the payroll bill would remain static, which would imply that managing the numbers is the key variable.

Can you set out in more detail what steps and measures the Scottish Government might consider in the coming financial year? Above all else, those who work in the public sector require a level of

insight into and certainty about the security of their employment.

John Swinney: First, I make the general point that the committee will be familiar with the length of my involvement in the public finances. I have been a minister continuously for more than 15 years. I was finance minister for nine years and I have now come back into that role. I therefore have a fair line of sight of the Scottish Government's finances, and I have never seen financial strain of the order that I am wrestling with just now—not in the aftermath of the financial crash in 2008 and not even in the years of austerity from 2010 onwards.

The situation is of a different order, and it is a product of extreme volatility as a result of the events that I cited—Covid, which led to an increase in the public sector workforce; the enormous disruption that has been created by the unwarranted and illegal invasion of Ukraine; and the impact of inflation. Frankly, and to be blunt, that has been made worse by the backwash of the mini-budget, which has been a disaster for the situation that we face. The pressures are therefore absolutely colossal. That is why I have already had to come to Parliament to announce reductions in public expenditure this year, and I might have to do more of that in the period that remains. The challenges that we face are therefore significant.

I understand clearly the need to give the public sector workforce reassurance about how we intend to tackle that issue. I have already embarked on discussions with trade unions about the strategic approach to that, because we must take the greatest care in building as much confidence as we can around those approaches.

Undoubtedly, the public sector head count will have to reduce in the spending review period and throughout the current parliamentary session. How that is done is crucial, and I want to do it in the spirit of partnership with our workforce. I want to be open about the steps that we are taking to do that. We already have recruitment controls in place, which are tempering rises in employment. Recruitment controls mean that, in some circumstances, vacancies are not being filled, which reduces the public sector head count but in a managed and careful fashion, which is the approach that I want to take.

With each budgetary event that we go through, we must reflect on how we can best address the strategic challenges. That is the approach that I will take throughout the discussions. I welcome the dialogue that we are already having with trade unions, which have a clear and legitimate interest in ensuring that the workforce is dealt with properly and with courtesy and dignity. That will be my approach throughout that challenge.

The Deputy Convener: Thank you. When we were in private session, I assured colleagues that I would be strict and fair with regard to time allocations, so I have to hand over to others at this point.

Liz Smith (Mid Scotland and Fife) (Con): Good morning, Deputy First Minister. I put it on record that I understand and accept that your job is much more difficult because of the difficulties that have been introduced by the Westminster Government, particularly with regard to the forecast. I absolutely understand why you prefaced your remarks with reference to that.

In the debate on the Scottish Government's programme for government at the start of this session, you mentioned two interesting things to me, namely that the Scottish Government is challenged with trying to improve economic growth, particularly by increasing productivity, and that you feel that the size of the Scottish working population in relation to total population is a major problem—I think that those were the words that you used. That latter point has been a focus of the Scottish Fiscal Commission for some years now.

Notwithstanding all the challenges that we face, could you say something about your economic plan to try to develop issues relating to growth? What will the Scottish Government prioritise in trying to improve our economic growth and our productivity?

John Swinney: First, I acknowledge Liz Smith's candid comments. I think that they help the quality of our discussion and reflect the reality of the situation. I also reflect on the exchange that Liz Smith and I had during my closing speech in the programme for government debate on 6 September. One of her colleagues—I will not disclose who the colleague was, to avoid causing any disruption to their prospects in life—told me that it was an example of the more thoughtful contributions that Parliament could do with more of. I am certainly interested in engaging in that type of discussion, because we face difficult challenges and there are no easy answers.

I welcome the timely question that Liz Smith puts to me about economic growth, because it allows me to illustrate the Government's approach, based on some conversations that I had yesterday at the convention of the Highlands and Islands in Oban, which brings together a variety of public sector leaders from the region. Fundamentally, the Government's growth agenda is based on the national strategy for economic transformation, from which I would draw out a few key themes. The first is an emphasis on innovation and creativity; the second is an emphasis on the importance of regional economic policy; and the third is a recognition of the importance of activating as many levers in our control as we can

in order to support economic activity. Those are three of the big themes from the national strategy that I would draw on.

In one respect, the conversation that I had yesterday with the convention of the Highlands and Islands was enormously encouraging and motivating, because we talked through a more buoyant set of economic opportunities than I have seen in a long time in the area. For example, there are the ScotWind developments, the prospects for technological development around the Beechwood campus in Inverness, some of the related energy activity that is going on in Orkney, Shetland and the Western Isles and a variety of other economic opportunities, including in the tourism sector. There is a huge range of economic opportunities.

However, the challenges that were identified would best be summed up by four factors: availability of the workforce to deliver the opportunities; availability of housing at all levels of the market, not just affordable housing; transport connectivity, including issues about ferry services—those issues were very much to the fore of the discussion—and finally, digital connectivity, where there was a recognition that we are in a much stronger place than before but still have some way to go.

On the one hand, there are some substantial economic opportunities and prospects but, on the other, there are four chunky policy issues, three of which the Scottish Government can help to influence, and one—the availability of people—that is a real shared endeavour and challenge. We have historically low unemployment, although that might not be the case in the period ahead, and we are reducing the level of economic inactivity in Scotland. That is happening slowly, but I expect it to be slow, because trying to reduce economic inactivity invariably takes a lot of focused activity. Fundamentally, however, we are short of people. That is the consequence of the loss of free movement under EU membership.

I am getting a sense that the UK Government is beginning to realise that the loss of migration is a problem—Liz Smith may be party to some of those discussions. I am picking up elements of dialogue within the United Kingdom Government that recognise that the whole of the United Kingdom is getting short of working-age population. I hope that that opens up recognition of some of the steps that we need to take to address that.

I hope that that gives you a flavour of my thinking on those issues.

Liz Smith: That is very helpful. It is encouraging to hear that there is some good news among the gloom.

Notwithstanding the points that you have just made, I will come back to two of the challenges

that you cited, namely those in relation to the workforce and housing. In making Scotland a much more attractive place to live, work and invest, is it the Scottish Government's intention to ensure that the tax system—the levers that you have with the Scottish Parliament—drives down tax to ensure that we are not seen as uncompetitive when compared to the rest of the UK? That is an issue that is coming through a lot of forecasts. If the current fiscal arrangements in the UK stay in place, there is no question but that there will be difficulties for the Scottish Government unless it can match some of the tax changes. Do you accept that point?

John Swinney: We have to proceed with great care here. I cannot accuse the United Kingdom Government of proceeding with great care on the issues and, with the greatest respect, I cannot accuse the Scottish Conservatives of proceeding with great care on the matter either. Within the past 10 days, I have been called on to mirror tax policies that have now been dumped by the UK Government, just 12 days later. That is no way to undertake tax policy—it is a total farce.

We have to look at the issues carefully. There is a relevant relationship between the tax position in Scotland and the tax position in the rest of the UK. However, there are the other policy commitments that people have access to in Scotland, such as significantly lower council tax and free prescription charges, as well as the fact that children in Scotland get more early learning and childcare than children in the rest of the UK get, and the fact that children who live in Scotland do not have to pay tuition fees if they go to a Scottish university.

10:00

Despite all the talk about relative tax positions, for some people, some of those UK Government decisions are completely incidental compared to the difference in council tax between Scotland and England, which is about £500 on average for band D. It is about £500 lower in Scotland, so there have to be really dramatic changes before a band D council tax payer in Scotland will decide to uproot their family and entire circumstances to try to get a degree of income tax advantage, while jettisoning a host of other benefits to which they have access in Scotland.

That is why, as I said in my opening remarks, I am going to air that debate about public expenditure and taxation. It is a rounded debate. We cannot have a compartmentalised debate about tax rates without looking at the whole public expenditure and tax proposition, because that will affect many of the choices that people make.

Finally, for the record, of course I want Scotland to be an attractive place for investment. The

record speaks for itself. Other than London and the south-east, Scotland is the most successful location for foreign direct investment across the UK and has been for the best part of the past 10 years, if not longer.

Liz Smith: However, on the back of that, when the initial announcement came from the UK Government, a large proportion of the Scottish business sector was very supportive of a large part of the fiscal statement, because it was very focused on high growth and a low tax agenda, in contrast to many of the forecasts for Scotland, which has seen fairly high tax—not necessarily with the benefits of good-quality public services in the way that we would like—and low growth.

I come back to the question that some of our very senior businessmen and women who want Scotland to have the same focus as the United Kingdom when it comes to that low-tax, high-growth agenda, are asking. In the forecast that you will make for the Scottish budget, will you apply that same policy so that people feel that Scotland is not only somewhere they want to stay, but somewhere they want to come? As you said in the debate on the programme for government, there are serious issues about the size of our working population.

John Swinney: Yes, there are serious issues about the size of our working population, which is why I thought it absolute madness for us to give up free movement of EU citizens. Even if we had to leave the European Union, why we could not have stayed in the single market is totally beyond me. As an act of absolute self-harm, it is beyond belief.

I have been around here for ages and I remember vividly that, 20 years ago, Jack McConnell's Administration was obsessed by the danger presented by the decline in the working-age population. I take my hat off to those members—they were totally obsessed by the topic. They did all that work on the fresh talent initiative. Jack McConnell phoned me, as leader of the SNP at the time, to ask if I would support the policy so that he could get good cross-party agreement. There was a lot of rancour between my beloved party and the Labour Party at that time—how things have moved on!—but I gave Jack McConnell unreserved support on that. It was a good idea and it made a bit of headway. Then, in 2002, EU expansion took place, free movement of citizens was enabled and our population started rising.

I think about the community that I represent. My son has just left primary school. A third of his class were the children of EU migrants who came here as young people 20 years ago, started working, met people and made their family life here. They boosted our population, and we did not have to

worry about that for 20 years. We need to worry about our population now, and the situation is completely and utterly self-inflicted.

If we could have some thawing of the attitude towards migration, that would be of great benefit. I cannot magic up people out of thin air. Yes, we can work hard to try to activate people who are economically inactive, and I commit to doing that. We are doing good work on that—great pathfinder projects have been undertaken in Dundee and Glasgow to activate economically inactive people—but we are still short of people. That change of attitude would help.

Liz Smith puts it to me that there are forecasts of growth in the United Kingdom. That is not quite what we have got yet. We have got rhetoric about growth; we have not got any forecasts. The forecasts will come from the OBR and we will all have to wait to see what that adds up to.

In the mini-budget statement, the single policy initiative that was about growth was on investment zones—that was it. If the chancellor believes that the OBR will come along and say, "Yeah, yeah—these investment zones are going to be the absolute dynamo and that's going to deliver 2.5 per cent growth," my response to that would be, "Good luck with that," because I do not think that that will be the case. I do not want to foresee OBR forecasts too much, but I suggest that the chancellor will have to come up with an awful lot more growth-related initiatives to substantiate an OBR forecast that would get to 2.5 per cent growth, given what we are experiencing now. Indeed, if the chancellor wants to repair the public finances without making spending cuts, the growth assumption will have to be higher than 2.5 per cent.

Lastly—forgive me for the length of my answer, convener; I am not really helping you with your time management, but there is a lot of really important stuff in here—I unreservedly accept the importance of the Scottish Government having an agenda that is about realising our economic opportunities. I mentioned the discussions that I had yesterday about doing that in one part of the country, in the Highlands and Islands. We must take the steps to enable that to happen.

On the housing question, I accept that we must look at what we can do to help. However, housing developers in the Highlands and Islands tell me that one of the biggest impediments to their building new houses is the availability of people—they just cannot find people.

Liz Smith: I do not disagree with you on some aspects of the workers issue. I think that you and I share the same views on the Brexit scenario, but the issue is not all about that, by any means; it is about differential tax rates. You mentioned

housing. The changes in stamp duty down south will benefit someone who is buying a house to the tune of about £20,000. If we do not make similar changes to the land and buildings transaction tax, things will be made more difficult here. I am concerned that there are other issues at play in Scotland that do not necessarily make it a particularly attractive place in which to live and work.

This is not just about the current budget scenario, although I agree that there are many issues with that, particularly the lack of adequate forecasts, which you rightly cited. This is not a new problem; it has been going on for quite some time, which you will see if you look back at what the Scottish Fiscal Commission and other forecasters have been saying. That is why I am really interested in what direction of travel the Scottish Government will set out to address the significant issues of growth and productivity in our economy. This is not just a Brexit issue.

John Swinney: On people's availability, that has been fundamentally affected by Brexit. There will be other factors, but that is undoubtedly the key factor.

As I said in my earlier answers, we have to make careful judgments about tax policy, because we must be mindful of the legitimate issues that you put to me. However, we must consider those in their proper perspective, which is why I cite the other issues, including the need to consider what the total relevant housing costs are. Property prices are higher in England than in Scotland, so people will have to be able to command much more substantial salaries to afford those properties if they are trying to buy them with a mortgage.

A variety of other measures in place in Scotland provide some degree of difference in the availability of public services, whether that is in relation to lower council tax, no tuition fees, more early learning and childcare, no prescription charges and so on. There has to be careful consideration of all those questions.

My final point is on the mini-budget. The chancellor took the decision to change stamp duty on the basis that it would stimulate the housing market in England. He has done enormous damage to the housing market in England, because of the fiscal recklessness of the mini-budget and what it has done to interest rates. I have read stories in newspapers about people who were all set to buy houses but cannot now do so because interest rates have gone through the roof. Those young people were full of hope about getting on with their lives. With total recklessness, the chancellor has just shattered all that.

Forgive me for wanting to be careful about the tax decisions that I take, but on the basis of what

the chancellor has done, a lot of misery has been created for people who were about to take big steps in their lives and have had that taken away from them.

John Mason (Glasgow Shettleston) (SNP): I have a few questions. There was a UK budget—I consider it to have been a budget, whatever it was called—without OBR forecasts. What is the risk of not having forecasts tied into the budget?

John Swinney: We have seen that risk over the past 10 days. Mortgage products have had to be withdrawn from the market because they will be fiscally unsustainable for lenders, because of their expectations of where interest rates will head. There is market disruption.

People who had a reasonable expectation of getting a mortgage at one level of interest rate now have to face perhaps double that interest rate, which has an effect on those people's capacity to borrow. That has been followed by a perilous moment of collapse for the pensions market as a consequence of market uncertainty.

The moral of the story is that the events of a week past Friday—undertaking substantial changes in the fiscal envelope without appropriate forecasts to show how they are sustainable—should never be repeated, because there is a direct connection between those decisions and the market chaos in which the Bank of England has had to intervene to safeguard pensions.

Let us think about that for a moment. Mr Mason and I come from a political stable that has often had to set out our views on how we deliver sustainability and pensions. Well, the United Kingdom Government came perilously close to destroying the pension entitlement of thousands of people because of its recklessness.

John Mason: Is it your understanding that the UK Government had forecasts that warned about those things, but ignored them and went ahead anyway, or did it not even look at the forecasts?

John Swinney: I do not think that it could have had forecasts on the implications of its tax decisions. It had forecasts on the condition of the UK Government economy and public finances. I understand that some forecasts from the OBR were made available when the Chancellor assumed office on 6 September. I do not think that OBR forecasts were commissioned of the particular changes that were made but I am absolutely certain that forecasts would have been run within His Majesty's Treasury and that the Treasury would have told ministers about the damage that was likely to be done. I can only assume that ministers decided to ignore that.

10:15

John Mason: It strikes me as totally irresponsible to do a budget without forecasts. Is that something that the Scottish Government would be allowed to do or would even consider doing?

John Swinney: Forgive me, I am not absolutely familiar with whether we are obliged to do that through statute—now that I think about it, I think that I legislated for that, so I think that we are obliged to have that in statute. It is a good thing to have a forecast and that is why we should do it.

I invite Mr Mason to wonder what outrage there would have been if I had stood up and said, “I am not going to bother with a Scottish Fiscal Commission forecast”. I can think of some people who might have expressed outrage if I had done that.

To be candid, if I were to ignore an SFC forecast, it would not have quite the consequences of a UK Government ignoring a fiscal forecast, not taking a fiscal forecast or not doing the job properly. We have seen the damage that has been done and our economic prospects have been set back significantly as a consequence of that behaviour.

John Mason: Mr Swinney, you and I both spent hours and hours and hours considering the SFC and how it and its forecasts were so important, we should consider whether it should be independent or part of Government. It absolutely amazes me that this has happened and that the UK Government did not take the forecasts into account.

You also mentioned interest rates. You focused on mortgages and so on but how do the interest rates going up affect the Scottish budget? What is the impact for us?

John Swinney: I suppose the best way to express it is to say that it will affect the purchasing power of the Scottish budget in the years to come.

If we are undertaking future borrowing—if we are in any way co-investing in a proposition with other interested parties, which the Government does from time to time—that will be a factor that we will need to consider.

If we take, for example, some of the investments that our enterprise agencies or the Scottish National Investment Bank might make, these are invariably co-investment propositions. The ability of other parties to co-invest, which we rely upon so that there is a sharing of risk, might be jeopardised because of those factors. There are a variety of knock-on effects that we may face as a consequence.

John Mason: Following on from that, a number of housing associations were in touch with me over the weekend, especially in relation to this week’s Cost of Living (Tenant Protection) (Scotland) Bill. However, before the legislation came up, they had already looked at cutting back capital expenditure in relation to new houses, because even before the rent freeze proposal, they were only planning a rent increase of 5 or 6 per cent.

One association told me that it is stopping all new builds. It will only complete what it is already doing and do maintenance. It was borrowing £40 million for new builds and it has now cancelled that with the bank. Will that have an impact on our capital expenditure, because that is not so much about us borrowing, it is about trying to help other people?

John Swinney: We are contributing towards the financing of some of that new housing activity but the fiscal model has to be sustainable.

It is an issue that the Parliament and the Government have to be careful about in relation to the rent freeze question and what implications that has. We have to be open about any potential implications that come from that, but undoubtedly it is an example of an approach to co-investment where we need other parties to be able to undertake fiscally sustainable measures.

John Mason: If housing associations are to build less, that will be a saving on the capital budget for the Government, presumably, because they will not be wanting the grants that they could have had?

John Swinney: I come back to my answers to Liz Smith on the challenges that we face around realising economic opportunities. The housing challenges that we face are not just about the Highlands and Islands; the convener’s constituency will face acute challenges in relation to housing availability and workforce, and the necessity to ensure that there is accommodation to contribute towards economic growth. The last thing I want to see is any lack of constancy in the housing investment programme. It is not a capital saving that I would be particularly interested in pursuing.

John Mason: Talking of capital expenditure, we had evidence from South Lanarkshire Council saying that, although we say that inflation is 10 per cent, 11 per cent or whatever, in some capital projects it was facing 30 per cent inflation. An example was in building a bridge, primarily because of the shortage of steel, which I believe comes from Ukraine. Do you recognise that kind of inflation figure and that it is different in different sectors?

John Swinney: Without a doubt, yes. We have to look with care at capital projects. I am looking all the time at what the expectations are on capital projects because of the disruption to supply chains from Covid, exacerbated by the illegal invasion of Ukraine and all the disruption that comes from that, and the impact of energy costs. All of those factors are putting pressure on capital project budgets and we have to be very careful in the management of those sums.

John Mason: Longer term, we have a £3 billion limit, as I understand it, on borrowing for capital projects and we are at about £2.1 billion at the moment. How do you see that moving forward, or do you think that that £3 billion limit can be revised?

John Swinney: We would have to have necessary agreement with the Treasury about any revisions to those limits. Obviously, those are issues that we pursue with the UK Government.

John Mason: My final question is about the investment zones that have been announced. My concerns about those kinds of things are that we lose tax, for one, and that existing jobs move from one area to another just to get those kinds of benefits. Can you say anything about the investment zones? Do we know anything about them?

John Swinney: I have had a couple of conversations with the Secretary of State for Levelling Up, Housing and Communities on those questions. The United Kingdom Government is very keen that we develop a proposition in Scotland that is comparable to what is being taken forward in England. The secretary of state has indicated to me that he fully understands that many of the characteristics, aside from the national insurance contribution benefits, are, in essence, on devolved questions.

I have agreed to explore what those zones might look like. Mr Mason puts some pretty fair points to me about the concept of investment zones. I suppose that the critical question is, do they generate real new growth or are they, in essence, providing for displacement? If they are providing only for displacement and there is an erosion of the tax value, the growth estimates that the UK Government is putting out will not be realised as a consequence. We have to make some very sensitive judgments about that, but we are engaging constructively in that discussion with the UK Government.

Michelle Thomson (Falkirk East) (SNP): Just picking up on John Mason's point around investment zones, it is good that some initial discussions have taken place. Do you have any concerns that money will be made available for them that bypass the priorities of the Scottish

Government with no proper accountability or scrutiny, as has been highlighted as a concern in relation to some of the other levelling-up-type funds? Have you got that far in your discussions yet?

John Swinney: I do not think that there is a pot of money is likely to come with the investment zones, but there will be fiscal incentives through reduced national insurance contributions, which is an issue that is properly within the competence of the United Kingdom Government under the constitutional arrangements. The UK Government says that it would like the concept to be extended to Scotland but that it properly understands that there are many devolved issues.

I have no complaints about the nature and the manner of the dialogue that we are having on that question. Some of the judgments come down to some of the issues that Mr Mason has already raised with me.

Michelle Thomson: You have talked eloquently about last week's pretty disastrous fiscal event. Arguably, too many people in politics and perhaps even the media were too hasty to view the wider economic landscape through the prism of London. That often happens. However, that budget and fiscal event talks to a culture, perhaps, of risk taking. We saw that with defined benefit pensions, where liability lies with the providers. Today's *Financial Times* reports some statistics on the dwindling investment of UK pensions in the domestic stock market. The article says:

"as recently as the mid-1990s, pension funds allocated just under half their assets to UK equities, a figure that has fallen to under 15 per cent."

It goes on to say that the type of pension schemes that, last week, were

"caught up in the liquidity squeeze ... allocate just 3 per cent of assets to UK equities."

Frankly, it is not a good sign that long-term patient capital vehicles are reluctant to invest in their home turf and the alignment of that. That strikes me as a business opportunity for Scotland whereby you signal a prudent approach, aligned with the Scottish National Investment Bank with long-term patient capital. Are you able to commit that, with regard to all funding towards the Scottish National Investment Bank, and, indeed, in relation to long-term patient investment capital, you will do all that you can to protect that and perhaps even increase it? It would be good if Scotland were seen as a place for some of these defined benefit schemes to invest, where they are not going to invest elsewhere.

John Swinney: Throughout my involvement in any of these questions, I have always been struck by the importance of investment certainty and attracting commitment to the market. I will take the

example of renewable energy. Since 2007, we have given absolutely cast-iron policy certainty on our commitment to renewable energy. The reason why we have such phenomenal progress on getting to a position whereby, in essence, Scotland's net electricity requirements are generated in their entirety by renewable energy is that we have given that certainty to the marketplace.

Therefore, I accept, fundamentally, the argument that Michelle Thomson puts to me. The Government has given a long-term commitment to the Scottish National Investment Bank. Although, as the committee will understand, I am not at the stage of defining particular budget numbers, the Government is committed to supporting the Scottish National Investment Bank and all of its purposes in the long term.

However, in all honesty, I cannot assure Michelle Thomson that I can insulate Scotland from the damage that has been done by the chancellor's decisions and the investment uncertainty that has been created, because, fundamentally, the pension funds that she talks about will look at the United Kingdom and the decisions of the United Kingdom Government. I am not surprised that they are all very anxious and nervous about it, because it has been a total fiasco since a week past Friday. I cannot overstate the damage that has been done—on top of an already really volatile situation—by that fiscal recklessness.

I fear—I am really worried—that, in order to go from veering off to that extreme to the other extreme of creating market certainty, the casualty will be public spending, in particular the public spending that vulnerable people in our society depend upon. That is my big fear about where we sit today.

10:30

Michelle Thomson: You have made that very clear at this meeting and elsewhere.

One of the reasons why the markets were so spooked was not just the lack of an OBR look-ahead but the fact that the UK Government intended to borrow vast sums of money to fund tax cuts. I wondered at the time whether the same people who were running gleefully to borrow money for those would also run gleefully to press for an increase to the Scottish Government's borrowing powers, although we would both immediately agree that the Scottish Government would not be so stupid as to borrow money to fund tax cuts.

In light of that, will you commit to an increased emphasis on further proper flexible borrowing powers for the Scottish Government? The

situation has laid bare the lack of fiscal resources available to you in the current economic climate.

John Swinney: There are a number of issues in your question. First, there is a legitimate and proper place for borrowing for investment in our economy. We have borrowing powers. Mr Mason asked me whether the value of those should be increased. There is always an argument for that, but there must also be fiscal sustainability. When finance ministers set budgets, they must be confident that we can service the debt that we take on. However, borrowing for investment in the infrastructure of the country is total common sense. We do it successfully.

There is then the scenario of borrowing to deal with the dynamics of change and fiscal shocks. We have a small degree of borrowing capability to deal with a Scottish economic shock and we have some fiscal flexibility about how much money we can carry over from year to year to deal with a shock. We are using some of that flexibility to the maximum now. That still does not prevent me from having to redirect £560 million of public expenditure from previously expected projects to meeting the in-year costs of pay demands and inflationary pressures that are much greater than were anticipated when the budget was set. Therefore, I am planning on the basis that I have to find about £700 million more than I anticipated in this financial year to fund pay deals. That is why I am having to make the changes that I am making.

There is an argument for saying that, in the circumstances that we have, with inflation at, currently, 9.9 per cent compared to 2 per cent when the comprehensive spending review was undertaken or even 5 per cent at the start of the financial year, we should have some resource borrowing power to avoid having to take some of the dramatic decisions that we have to take. We do not have that flexibility just now. It would be helpful to have it but I come back to my fundamental point that those powers must be exercised in a climate of fiscal responsibility and sustainability, whichever way we exercise them.

Michelle Thomson: I am on record as talking about corruption and how we should reframe the loss of those moneys in gross domestic product terms. People tend to consider corruption as crime rather than a loss to GDP and, therefore, an inability to fund vital public services. I have said in a speech that conservative estimates put the loss to UK gross domestic product at around at around £267 billion each and every year—that comes from figures from the likes of the National Crime Agency.

Can we have a short update about any further discussion of the proceeds of crime? The figure was less than £30 million prior to 2016. As I

understand it, that was then folded into the Scottish budget and nothing has come to Scotland since 2016. The UK Government regards it as something that should be deducted from Scotland's budget, whereas the Scottish Government sees it as something that should come under the no detriment principle.

A loosening of regulation has been trailed, which usually correlates with increased criminal activity—that is what we have seen: history tells us that. Have there been any further, more recent, discussion about the proceeds of crime? In my opinion, that affects Scotland's international brand—we do not want to be associated with that. If there has been no discussion, will you undertake to look at that more closely, given the correlation with loss to GDP and the impact that that has on Scotland?

John Swinney: There are two points there. First, we must be pretty realistic about the fact that the mini-budget, far from fuelling growth, has actually undermined it. The disruption to the housing market alone as a consequence of that fiscal recklessness will be significant. There is plenty evidence of impact there.

You asked about recent dialogue on the proceeds of crime. It is a while since I have dealt expressly with that. To ensure that I can give the committee an accurate answer, I had better respond to the committee in writing about that.

The Deputy Convener: I have one brief point of clarification. You clearly set out the role of borrowing in relation to investment and financial shocks. We hear comments from different parties—my own included—that suggest that borrowing brings some sort of infinite possibility for public expenditure. Do you agree with my view that, in broad terms, borrowing should not be used for current expenditure but that it should be there to provide flexibility around shocks or to allow for investment? Prudent financial management should not use borrowing either to fund tax cuts or to expand public spending.

John Swinney: In general, that should be the case.

Ross Greer (West Scotland) (Green): I apologise for missing your opening statement, Deputy First Minister. Each stage of my journey this morning was delayed by the weather.

You made a comment a moment ago about damage to the housing market. Will the Government or Revenue Scotland be in a position in the coming weeks and months to issue revised projections for LBTT receipts, given the impact of the mini-budget on mortgages?

John Swinney: We monitor the position very carefully. The data on transactions and on the

volume of tax generated is published monthly. The information about what has happened to the number of transactions and to revenues will be available. If we decide to change LBTT rates in any way, that will be part of the projection work that is undertaken and information about that will be set out to Parliament.

Ross Greer: The live data is useful, but I was asking about the assumptions that the Government might make. If we assume, for the purpose of those projections, that there is no change to LBTT policy, projections of long-term income from that tax will be based on assumptions about the effect on the housing market. I am sure that the data for this month and next will look bad. There is a role for Government in trying to make a long-term assumptions, for planning purposes, about how long that effect will last, because that will affect discussions about LBTT policy.

John Swinney: There is an immediate short-term issue that revenue from LBTT might not realise our expectations. Equally, it might exceed our expectations. However, there is a substantial interruption to the housing market just now, so I think that it is likely that revenues will be undermined as a consequence. The forecasts that we undertake are designed to provide as much certainty as possible about the implications of the policy decisions that we make. Essentially, we will be mapping out what our policy approaches will be, securing projections on the basis of those and making financial decisions accordingly. However, those factors are material to the performance of the budget.

Ross Greer: I have a technical question that I perhaps should already know the answer to. How is the interest rate set for the national loans fund? I am conscious that, in recent years, it has been less than 1.5 per cent. However, given the expectation of the resource that the Government is going to be drawing from that fund over the coming years, changes to that interest rate could have relatively significant long-term effects. However, I am not clear how that interest rate is set.

Scott Mackay (Scottish Government): A small premium over UK borrowing costs usually goes through to the NLF. I cannot remember what it is off the top of my head, but we have managed to secure a very small premium through the NLF on our borrowing to date. I am not sure what the forecasts are.

Gary Gillespie (Scottish Government): Essentially, it is issued as UK Government debt and there is a small premium, so it comes in under whatever the cost of UK Government debt is over a period of five or 10 years, for example. The amount will increase given the market turmoil over the past week.

John Swinney: It might be helpful if we could write to the committee to give absolute clarity about those details.

Ross Greer: Yes, that will be useful.

I have a wider question. You might be aware of some of the evidence that the committee has taken from various stakeholders in recent weeks. As you would expect, absolutely everybody believes that their sector should be prioritised for additional public spending, yet very few are willing to volunteer where that money might come from. Almost no one is willing to volunteer a cut to funding in another area. Some organisations have come to us with revenue-raising proposals—I can commend Unison’s as some of the most specific proposals that I have seen in quite some time. Other organisations simply say, “Well, you can fund the extra spending that we think we need from tax increases.” They tend to be quite vague; they tend to make statements to say, “Oh well, there are more tax powers to be used than are currently being used.”

In part, I interpret that to be due to a lack of familiarity with the data that is currently available on tax and spend in Scotland. For example, a lot of organisations are not particularly familiar with the fact that the ready reckoners on income tax are published every year. Those organisations would struggle if they were to come up with their own proposals on the reform of, for example, LBTT or council tax.

How do you think we can improve the quality of public debate and public knowledge among key stakeholder groups—not necessarily the public at large—about the tax side of the equation at budget time? If we do not do that, we will continue to be stuck in the loop that we have been in for a long time, in which everyone asks for more money and says that it is simply up to the Parliament and the Government to decide where that money comes from. How do we improve the quality of debate about raising revenue?

John Swinney: There are a number of things that we have to do to address that issue. Mr Greer’s characterisation of much of the debate is entirely accurate.

In the course of the limited period of time that I have been back in the finance and economy portfolio, many people have told me to, invariably, use the reserves, but they are all being used; borrow, but we cannot borrow; increase tax, but we cannot increase tax by law; and, finally, get down the back of the sofa and see what is there. Those four options do not provide answers to the challenges that I face, hence my statement to Parliament on 7 September.

Some of the answers to the problem that Ross Greer has raised lie in the points that I exchanged

with Liz Smith in the programme for government debate and in our discussion during this meeting. In Parliament, we need to have a totally realistic, open discussion about the relationship between tax and spending. What we are prepared to argue for in spending terms, we need to be prepared to argue for in tax terms. I use “tax” as a catch-all for tax, revenue raising, level of borrowing—in other words, the income side of things. Let us have a proper discussion about that. I am very open to having that discussion. I am not sitting here saying that there are easy answers; really difficult decisions will have to be taken and we will have to have a climate of openness.

10:45

I do not know whether you heard me say this in my opening remarks, but I am doing two things this year that I hope will help in that respect.

First, I have invited three significant economic voices to provide commentary to our debate—dispassionately; it is for them to construct their contributions. I had a briefing session last week with Professor Anton Muscatelli, Professor Frances Ruane and Professor Mike Brewer, and I invited them to reflect on the issues with which we are wrestling. I suspect that the discussions in this morning’s meeting will be a helpful reference point for them. They will contribute to the debate and set out some of the issues that we have to consider. I expect that group to make a couple of interventions in the debate. I have told it that I do not want recommendations and that it is up to me to decide what to do and what to put to the Parliament. However, I want it to help to inform commentary and discussion on the situation and to be as dispassionate as possible.

Secondly, I will open a consultation process on the various challenges that we face when it comes to tax and public expenditure. I will publish a discussion paper to encourage public engagement on choices. I expect to do that around the timing of the emergency budget review.

Ross Greer: What are the Government’s expectations of the effect of fiscal drag this year on income tax receipts?

John Swinney: We are looking at all those questions as we assemble our judgments on the position that we have to resolve in relation to our tax proposals in the budget. We will set out our position to Parliament as part of the commentary on the budget and the judgments that we think are relevant at that time.

Ross Greer: Thank you.

Douglas Lumsden: Deputy First Minister, I want to come back to investment zones. It sounds like you are not fundamentally against them but

you need to see a lot more detail and description from the UK Government. Is that a fair analysis?

John Swinney: The UK Government would like the idea to be rolled out across the whole of the United Kingdom. It can provide, in essence, a foundation for the approach, through national insurance contribution concessions, but some of detailed and specific provisions that are in the guidance document for England, which I have had a look at, relate to devolved issues, that is, mostly planning and environmental considerations as well as a variety of other questions. The UK Government is engaging us properly on the substance of those considerations.

I rehearsed with Mr Mason some of the issues that I have with investment zones. We have to be careful about the effect of displacement. Does a zone generate new economic activity? Are there alternative ways to support activity? I assure you that we are engaging with the process in a constructive spirit and that the UK Government is engaging constructively with us.

Douglas Lumsden: That is good to hear. There are a lot of similarities between investment zones and freeports, I imagine. Has the Scottish Government done much work on freeports and their costs, and on whether the model might lead to displacement or new growth?

John Swinney: Some of the same issues apply. We are still in discussion with the UK Government about the agreement that was reached earlier about having two green freeports in Scotland. Bearing in mind my point about displacement, if we have too many of these things, it is all—to be blunt—just swirling around. I hope that you understand the point that I am making.

Douglas Lumsden: Absolutely, but there could also be the argument that perhaps some of the benefits would be devolved benefits that would impact on your budget.

John Swinney: Potentially, but those obviously flow into the level of growth that we can assume within Scotland, along with a range of other factors.

Douglas Lumsden: My next question is about air passenger duty. That was an area that could potentially be devolved. Is it something that the Government is still looking at, or are you moving away from that now?

John Swinney: The last discussions that we had on that were some time ago, because of some of the challenging issues around the devolution of air passenger duty. To my knowledge, those issues have not yet been resolved.

Andrew Scott (Scottish Government): Not yet, no.

Douglas Lumsden: So there are still some issues that prevent it from being devolved—is that correct?

John Swinney: Yes.

Douglas Lumsden: That is good to know.

My last question is about the national care service. You have said that we are in really difficult financial times just now, so is that an area that you are you perhaps looking at again? Is it the right time to introduce that extra layer? The committee hears a lot of evidence from people who say that it could add an extra layer of bureaucracy and that perhaps now is not the right time to do it. Is it something that you would consider delaying or something that you definitely want to push ahead with?

John Swinney: The Government has taken forward the legislation on the national care service and we are developing those propositions. Obviously, we are having a lot of consultation and dialogue on those points. Today, we have not really got into specific funding decisions about particular areas of policy, so I would not want to give commitments on particular decisions that the Government is making on any aspect of policy, other than to say that we intend to fund what we have committed to doing. However, it all has to be fiscally sustainable and I am wrestling with that challenge in this financial year because we have had a number of significantly increased costs, principally through pay deals and the loss of value through inflation. We have to make sure that all of our current delivery of the budget is fiscally sustainable and that future years are fiscally sustainable as well.

Douglas Lumsden: Do we have updated costs on the national care service, or will those come through in the legislation?

John Swinney: Those will be set out in the financial memorandum that is associated with the bill.

Douglas Lumsden: Thank you.

The Deputy Convener: It is clear that my comments about time discipline have instilled a remarkable discipline on the committee. It might be the first time that anyone has ever followed my lead. However, it means that we have time for some supplementary questions. I invite Liz Smith to ask her supplementary and I have one or two. If other committee members have supplementary questions, we have time in hand.

Liz Smith: I was interested in what you said in response to Mr Greer about the need for a grown-up discussion in Parliament about what we bring in through revenue and what we spend. I do not think that there is any doubt that increasing transparency and accountability in this Parliament

is essential. I think that it was two weeks ago that we had witnesses in the committee who were very keen on that idea.

In fact, a couple of the witnesses were suggesting that we should have a finance bill to enhance that process and I am interested to hear your views on that. It comes on the back of the national performance framework, which is obviously centre stage to the Scottish Government's delivery. We have had a lot of debates about how easy it is to measure the outcomes when you have specific policies within the national performance framework. How easy is that process? Are you minded to be fairly favourable towards the idea of a finance bill that could help to enhance scrutiny and openness?

John Swinney: I do not think that I used the word "grown-up" at any stage in my answer to Mr Greer—I possibly argued for a more considered discussion. I am all for that. I do not mean to be disrespectful to anybody, because I am as much a player in that as anybody else, but we probably need to have a more considered debate in Parliament about some of these questions. I give the committee the assurance that I will endeavour to do that through my stewardship of this brief for, I hope, a very short time—if the finance secretary happens to be listening to the session.

I tried to demonstrate that by coming to Parliament with the statement on 7 September. That was not a statement that I was required to make, but I made it because I felt that, in the interests of openness and transparency, I should tell Parliament what I was doing to wrestle with the in-year financial pressures. Normally, that is done in the autumn and spring budget revision process, which does not attract an awful lot of attention, but we are wrestling with some substantial issues.

Therefore, there is a need for us to have an open, considered discussion. I am not persuaded that we need more legislation to do that, because, to go back to what we have talked about, the existing legislative framework on the Scottish Fiscal Commission puts some substantial obligations on Government to adhere to the legislation and for Parliament to be informed by the Fiscal Commission of its conclusions and views. However, I am happy to consider any further relevant points.

The connection to the discussion about the national performance framework is interesting. I accept that it is difficult to look at a pound in the budget and follow its journey into the national performance framework. It is possible to look at the national performance framework periodically and ask, "Do we think that public expenditure and policy decisions are supporting the achievement of this direction of travel and, if not, what do we need to reshape about public expenditure or policy to

enable that to be more the case?" However, it is a difficult process to establish a direct connection between public and expenditure outcomes.

A fair conclusion would be to look at decisions on public expenditure and, for example, come to a conclusion on whether the Government is doing enough to support early intervention and preventative measures. If the Government spends all its time running around picking up the pieces of things and not leaping away up stream to avoid problems occurring, that is a pretty big debate for the Parliament to have.

That would probably also lead to changes in how we spend public money. There is not often a queue of people saying, "Please take money away from me because it could be better spent over there." However, Parliament could always make that decision and agree collectively that we could do with, for example, early intervention. I am a firm believer in early intervention. That is why we invested to expand funded hours of early learning and childcare to 1,140 a year. The Cabinet came to the conclusion that we needed to take a bold decision to alter the life chances of children in our society. The same rationale effected the decision to embark on the Scottish child payment.

Therefore, we took big, bold policy decisions that have financial implications, and we have put them into the budget, in the hope that they help to narrow the attainment gap and erode child poverty. I would argue that there is real benefit in those policy decisions, but they have come at a price in terms of a cost to the budget and, obviously, Parliament is welcome to air some of those questions as we proceed.

The Deputy Convener: I will ask a couple of supplementary questions. If I may offer a brief comment, you are absolutely right, Deputy First Minister, that it is difficult to follow a pound from the budget through to the national performance framework. I also gently submit that it is quite difficult to follow a pound even through to the outturn. I know that the Government has announced changes to some of the processes but, in order to have a grown-up and candid discussion, being able to follow the pound effectively, although it is not always easy, is important.

11:00

More specifically, some preventative spend is difficult, because it takes many years to follow through, although some is a little more immediate. We heard good evidence from Engender, who made a plea for investment in social care. That can have a gendered impact, because women are disproportionately represented in the social care workforce.

More numbers came out today, but the figures from July show that 55,992 days were spent in hospital by people whose discharge was delayed. Does the Government have a view of how much that costs? Is it undertaking a cost-benefit analysis of the impact of increasing the pay of social care workers and thereby reducing the number of vacancies? Will that kind of work be undertaken in advance of the budget?

John Swinney: There are a couple of significant issues there.

I am happy to look at what further information would be helpful in following public expenditure to outturn. Going from budget proposals to enactment and then to the autumn and spring revisions and the outturn involves quite a number of steps. I appreciate that the numbers are quite high level by the time that we get to outturn. Inevitably, many budgets perform as we expect while others go either side of our expectation. We try to display that information in the revisions that are made in the autumn and spring and we report on that in the outturn. If there are changes that we can make, I am happy to engage in that.

Social care is a fundamental issue. The level of delayed discharge is way too high and is a source of enormous concern to ministers. We have taken a number of steps and have had a number of discussions, including a lot of dialogue with local authorities, to tackle that.

The problem of delayed discharge is the product of at least two factors, and perhaps a third. I am certain that our systems are not yet proactive enough and are not sufficiently preventative in supporting people at home to avoid their having to go into hospital. Lots of good work is going on around the country. There are low-level care packages that deliver just enough support to keep people in their own homes. A variety of public and third sector support services assist in that endeavour, but I accept that there are probably not enough services, which results in some people being admitted to hospital when we really should be able to support them at home and avoid them going there in the first place.

Part of the problem with waiting times at accident and emergency is that our hospitals are congested. Some people who come in through the front door of A and E should not be coming. Other people, who need to come in through the front door of A and E and then go out the back door and into the hospital, cannot make that journey quickly enough because the hospital is congested with people who really should be out of hospital and back home. They are not at home, because we do not have sufficient capacity to support people who might need higher-volume care packages than the other people I talked about, who might need very modest amounts of social care support.

I do not think that that is all about the third thing that I am debating in my mind, which is the availability of money. For once, I do not think that there is a shortage of money in social care. The issue is a shortage of people. We have lost a lot of people from social care. If I think about the community that I represent, a lot of people who were delivering social care had come in from other countries to provide that support and many of them have gone away.

For completeness, I must recognise a point that I acknowledge that the deputy convener has made on many occasions during parliamentary debate, which is that social care salaries may not be high enough to attract people when they make choices between different areas of economic activity. We have undertaken a local government pay deal that has been designed to strengthen pay for those at the lower end of the pay scale. I hope that that will help us on that journey, but we must remain open to that legitimate issue.

The Deputy Convener: There are supplementary questions from Douglas Lumsden and Michelle Thomson, but I would like a brief clarification first. You have committed to making a response to the mini-budget in the week beginning 24 October. You alluded to the fact that there is some ambiguity about what the consequentials might be. The Scottish Parliament information centre has published analysis of what that might look like, which indicates that the consequentials might be as little as £35 million in the current financial year, depending on what the Government does in its latter years.

Does the Scottish Government have a view of what the quantum might be in this and the next financial year? It strikes me that there is a question of priorities. The Scottish Government could seek to reverse some of the decisions that it made early in September; it might seek to replicate decisions by the UK Government; or it might seek to do targeted things with the limited additional money that it may or may not have. Which of those three should be the priority? What is your expectation of what may or may not happen in the statement that you will make in the week commencing 24 October?

John Swinney: We should be clear. I wrote to the committee yesterday with a revised assessment from His Majesty's Treasury of the impact on the Scottish block grant adjustment arising from the UK Government's policy changes on income tax and stamp duty land tax. That assessment indicates a potential positive block grant adjustment of £35 million in this financial year, assuming that we do not make any changes to land and buildings transaction tax in this financial year in light of the change to stamp duty. As I have told the committee already, I think that

the disruption to the property market will make those numbers very uncertain.

The purpose of the emergency budget review, which I commenced before the fiscal event, was to explore what more the Scottish Government could do in targeting support to assist people facing financial challenge. That remains the purpose of the exercise.

I have been looking with care at the UK Government's changes to income tax and stamp duty land tax. At this stage, given the turmoil that we are experiencing and the importance of an orderly forecasting process, I think that any tax changes should be made within the Scottish Government's normal budget process.

The Deputy Convener: Thank you. That is helpful.

Douglas Lumsden has a supplementary question.

Douglas Lumsden: The resource spending review made much mention of public sector reform. When will we start to see a flavour of what that will mean for Scotland?

John Swinney: A number of steps are under way under the Covid recovery strategy. In essence, they envisage a focus on the person-centred delivery of public services. That requires a great deal of alignment of activity from a range of organisations. The work on taking forward that approach is a constant part of the policy agenda that we are taking forward with our local authority partners, the national health service and other players. That is about reforming the way in which we deliver services, so that we support people more directly rather than relying on them to link up public services themselves.

Secondly, we are looking carefully at the functions of different organisations, and colleagues have set out to the Parliament some of that work—for example, in the field of skills, or in what is under way on the national care service.

Lastly, in the discussions that we have had this morning, I have highlighted work on the public sector workforce, and the range and selection of tasks that we expect to be undertaken as part of ensuring that the sector is appropriately sized and equipped to meet the challenges that we face.

Douglas Lumsden: I guess that it is a case of little snippets here and there, as opposed to a big-bang approach of total change to the landscape, so to speak.

John Swinney: If Mr Lumsden is waiting for me to announce a reorganisation of local government boundaries, I shall save him from the worry. That will not be a part of what we look at.

Once I complete this committee session, I am going to take part in a Cabinet sub-committee on joint priorities with local government. Many of the issues feature in that discussion.

Douglas Lumsden: Thank you.

The Deputy Convener: Indeed, we have had enough of big bangs from finance ministers in recent weeks.

I call Michelle Thomson.

Michelle Thomson: It is not often that I get the last word in any session of the committee. I am looking at the four men on the panel, and I am reminded that significant structural inequalities for women remain in the economy. Covid has had a big impact. The cost crisis has had a disproportionate effect.

Close the Gap suggests that narrowing the gap could add £17 billion to the Scottish economy. That organisation has expressed the view, with which I strongly agree, that equality must be seen as an economic issue, not an equalities issue. Will you give a commitment to testing every element of what you bring forward for the Scottish budget as to its impact on women, in terms of contribution and reduction?

John Swinney: I reassure Michelle Thomson that although, today, she is faced by a quartet of men, on any other day, if the director general of the Scottish exchequer or the chief financial officer had been with me, the panel would have looked remarkably different. We have very appropriate levels of gender balance across the Scottish Government, even if we do not have it on the panel today. Indeed, if the Cabinet Secretary for Finance and the Economy was here, it would be very different as well; that is another encouragement for her to come back to her role as quickly as possible.

To be absolutely serious, I unreservedly accept the points that Michelle Thomson made about the importance of assessing the impact of budget measures on women and on other groupings and considerations within our society.

In Scotland, we are very fortunate to have the Scottish Women's Budget Group, which has been very much involved in the Scottish Government's financial planning and budget work for many years, and it was actively involved when I was the finance minister. I know that the Government has good dialogue with that group. I will meet with the organisation as part of the dialogue that I will take forward on the budget, and I will listen carefully to the representation that it makes, just as I listen to a range of different organisations.

In the construction of our budget, it is important that we take adequate account of the impact that it may have on different groups in our society,

particularly women. If we have to take tough decisions during a financial year, it is probably even more important that we pay particular attention to those issues to avoid getting into a situation where we create a potential negative impact during that process.

The Deputy Convener: As we approach 11.20, it is quite pleasing for me that I can report that we are on time, according to my schedule. It might not be quite true to say that we are on budget, but we have certainly been on the budget this morning. I thank the Deputy First Minister for his contribution to the meeting, and I thank his officials for their support. We now move into private.

11:16

Meeting continued in private until 11:44.

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