OFFICIAL REPORT
AITHISG OIFIGEIL

Finance and Public Administration Committee

Tuesday 7 February 2023

Session 6

The Scottish Parliament
Pàrlamaid na h-Alba

Tuesday 7 February 2023

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FINANCE AND PUBLIC ADMINISTRATION COMMITTEE
5th Meeting 2023, 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:

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 7 February 2023

[The Convener opened the meeting at 09:30]

Budget Scrutiny 2023-24

The Convener (Kenneth Gibson): Good morning and welcome to the fifth meeting in 2023 of the Finance and Public Administration Committee. Today, we will consider the budget bill at stage 2, but before we turn to formal stage 2 proceedings, we will take evidence on the Scottish Government's response to our "Budget Scrutiny 2023-24" report.

We are joined today by John Swinney, who is the Deputy First Minister and Cabinet Secretary for Covid Recovery. He is accompanied by Scottish Government officials Alison Cumming, who is the director of budget and public spending, and Lorraine King, who is the deputy director of the tax and revenues directorate. I welcome our witnesses to the meeting.

Members received copies of the Scottish Government response on Friday. Before we move to questions from the committee, I invite Mr Swinney to make a short opening statement.

The Deputy First Minister and Cabinet Secretary for Covid Recovery (John Swinney): Thank you, convener, and good morning. I thank the committee for its budget scrutiny report, to which I responded last week and which I have carefully considered. As I have highlighted to the committee, the budget has been developed amidst very challenging economic and fiscal circumstances. It focuses substantial resources to support families, businesses and public services in accordance with its three overarching strategic objectives. The committee will be aware that I am not proposing any amendments to the Budget (Scotland) (No 2) Bill today. I am happy to respond to questions from the committee on its report.

The Convener: Thank you for that brief opening statement. As is traditional, I will start with a few questions; we will then open out the session to colleagues around the table. My first question relates to one that I posed in the chamber, to which you responded on Thursday, about our estimated overspend. When you gave evidence three weeks ago, I believe that the overspend was between £200 million and £500 million. Work has obviously progressed to reduce it to around £100 million. First, how have you managed to achieve that reduction? Secondly, what steps are being taken to try and eliminate it altogether between now and the end of the financial year?

John Swinney: A number of steps have been taken. First, the estimates that are submitted to the central finance team in relation to the expectations about budget performance are constantly revised. As time goes on, risks are addressed and the numbers are revised—the estimates of overspend will be revised down simply because the passage of time is giving us more certainty about the likelihood of the delivery of the budgets in line with our expectations.

Secondly, we apply rigorous scrutiny to any new spending that is undertaken. A detailed scrutiny process is in place, which, if necessary, ultimately comes to me for decisions on whether programmes are approved—so, judgments are made, and certain programmes or items of expenditure are delayed as a consequence.

Thirdly, we look at the performance of individual items of budget volatility—whether tax revenues or social security expenditure, for example—as we assess the likely outturn.

We still have the budget gap that I highlighted to you in the chamber last week. In relation to the further steps that we are taking to address that issue, all that I have described continues to be applied rigorously to get us to a position to balance the budget and I assure the committee, as I have done in writing, of the assiduous efforts that are going on to do so. Every effort will be made to ensure that that is the case before the end of the financial year.

The Convener: In some demand-led areas, there might be less demand than one anticipated, and it could be that taxes are a wee bit higher than was perhaps originally anticipated. What kind of projects have been delayed? What are we talking about here?

John Swinney: At this stage in the financial year, those tend to be minor aspects of public spending. We will look to take those programmes forward as soon as possible, but it may be that they have to be commenced in the next financial year. It will be a variety of programmes across Government.

The Convener: Could we say that you are moving the accounting into next year but that the projects are still continuing, or are there are actually delays to existing projects?

John Swinney: We cannot move the accounting.

The Convener: I am just wondering if there is any way—

John Swinney: That is just not possible.

The Convener: I just wanted to clarify that.

John Swinney: The programme must be delayed. The crucial point is that any expenditure that is incurred in this financial year must be accounted for in this financial year. That is how the accounting rules operate.

The Convener: I was really keen to get that on the record. I know we talk about always having to balance the budget. People might think that we can just kick things into next year.

John Swinney: If a project is delayed and is expected to be delivered next year—

The Convener: That will be next year.

John Swinney: That adds financial strain to next year.

The Convener: Of course.

John Swinney: Those are the day-to-day judgements that must be applied to ensure that we can bring the budget into line.

The Convener: Colleagues may wish to pursue that further.

The committee has raised a number of issues about taxation. For example, we asked when the Scottish Government plans to publish a discussion paper about tax and spending choices. The response that we got was that the rationale for that document has changed and the United Kingdom Government's mini budget has gradually been unwound. What is the rationale? Is it because of volatility at the moment, or are there other factors to consider?

John Swinney: The genesis of the idea of having a tax discussion paper was as a response to a very dramatic change to the comparative landscape on taxation, as a result of the mini budget in September. When I came to the committee, I indicated that I thought that some further dialogue would be required, given the nature and significance of the divergence that had been announced. As we all know, that did not last very long, so that particular imperative moved on and the immediate urgency and necessity of that discussion was no longer apparent.

What I have charted in my response to the committee is that, in order to support the decisions that we took in our own budget in December, we undertook extensive stakeholder discussion and dialogue. I chaired a number of panel discussions with a broad range of stakeholders to hear their views, the Minister for Public Finance, Planning and Community Wealth did likewise and a variety of other discussions took place. There was extensive consultation activity, but we did not have a consultation paper or a wide open consultation of the sort with which colleagues would be familiar.

There is a space and a place for us to embark on longer-term discussion of taxation and I am open to looking at those questions in the future, but the immediate urgency was driven by the quite dramatic changes to the tax landscape, which, as we all know, did not last long.

The Convener: One area of taxation where there is concern is council tax. A working group, which includes representatives from the Convention of Scottish Local Authorities, has been set up to consider proposals for meaningful changes to be introduced in the short term, such as increasing the rates of council tax on second and empty homes. The group will also consider approaches to long-term reform. When is that working group likely to report?

John Swinney: It is probably best for me to say that the working group has started its activity. It is difficult for me to predict exactly when the group will report. We are anxious to ensure that early progress is made so that we can consider any implications and have wider discussions with stakeholders about those, given that they would be material for local authorities' decision making on council tax. I would like that process to be concluded as quickly as possible, although it is difficult for me to give that a definitive timescale. However, I recognise the urgency of that work, which is under way.

The Convener: I will stay with council tax. Currently, the Scottish Government provides council tax relief and 450,000 households receive a council tax reduction, with recipients saving more than £750 a year on average. By my calculations, that is a Scottish Government investment of £337.5 million, give or take one or two million. If council tax increases substantially this year, do you anticipate a significant increase in the Scottish Government's input to that scheme?

John Swinney: The council tax reduction scheme reflects changes that are undertaken in council tax. There is a potential for those issues to be a factor with which we have to wrestle. That is part and parcel of the volatility in income that the Government has to manage annually.

The Convener: Okay. Behavioural change is another issue that is very important in relation to future Scottish Government policy and thinking. As you will know, the Scottish Fiscal Commission told us that it believes that, although the higher additional rate of tax would raise £30 million on paper, it would raise only £3 million in reality because of behavioural change. The Fiscal Commission emphasises that that change would be more people not working as hard, as opposed to people with more than one address moving their tax affairs south of the border.

However, in your response you said that the Scottish Government had considered the issue and that the

"study found no evidence of significant behaviour change, including cross-border migration, as a result of our move to a more progressive tax system."

How does that sit with the comments of the Scottish Fiscal Commission, which says that 90 per cent of that income from a simple additional penny will be lost? That is a very dramatic loss for a small increase, yet the Scottish Government seems to be saying that it does not see that happening.

In previous meetings with the committee, you have suggested that the Scottish Government is very aware of behaviour change. Where are we on the issue? It clearly needs further exploration.

John Swinney: I acknowledge the risk of behaviour change—I am not denying that it is a factor. Our response is to say that, from the information that we have, we have not seen evidence of people relocating for tax purposes. That does not mean to say that there may not be a certain amount of behavioural change in the way that income is accounted for or tax arrangements are made, which are tax planning practices that are quite different from relocating.

We are also quite early in the era of tax divergence between Scotland and the rest of United Kingdom. We do not have many years' experience of that divergence. We have to be attentive to the detail and open about exploring those questions. In the policy-making space, we have to be conscious of the risks of behavioural change and factor those into our consideration of what tax changes to make—if any.

09:45

The Convener: There has been a great deal of focus on the national care service in recent days and weeks. This committee hopes to scrutinise an updated financial memorandum towards the beginning of next month, if not the end of this month. Concerns about how much of next year's budget will be allocated to the national care service have been raised—including by members of this committee—in the chamber and beyond. Can you enlighten us a wee bit on that?

John Swinney: I do not think that I have much to add to what I said to the committee when I was here last time round, which was that we have made provision in the budget for a range of measures in relation to the national care service, not least of which is the increase in social care payment rates, which accounts for a substantial part of the journey that we are trying to undertake with the national care service in terms of increasing remuneration for social care staff so that that career is a more attractive proposition.

Specific details about the delivery of the national care service will be linked directly to the financial memorandum that will come to the committee in due course. It will set out some of the further detailed planning that is undertaken in that respect.

The Convener: Do you accept that there is an element of frustration in the committee that we will not get the financial memorandum until after stage 3 has passed? Obviously, members are keen to know how much of a commitment there is to the NCS. We know the size of the overall budget and that more than £1 billion extra is going into health and social care this year, but there is a focus on that specific aspect.

Last week in the chamber we heard wildly differing figures for how much it will cost over the next five years. That is partly because we do not have a real grip on the financial memorandum and exactly what it is likely to say. Any help in terms of parameters would be useful—minimums and maximums, for example.

John Swinney: My point and my answer is that the overwhelming majority of the expenditure that is envisaged in relation to the national care service in the next financial year is in relation to the improvements to social care staff pay. The other governance costs—if I can call them that—and the costs of preparations for the service are very much the minority of the expenditure. As that position develops, the financial memorandum will redevelop. You are asking me to commit to detail in advance of its being finalised within Government. I am not in a position to do that today, but I hope that what I have said about the balance of expenditure between the larger amounts on social care remuneration and smaller amounts on governance helps the committee to find comfort on the issue.

The Convener: I am sorry, Deputy First Minister, but I am not trying to get the specifics, for the reasons that you outlined. I am trying to get parameters—for example, what is the minimum that it is likely to cost and what is the maximum? Surely the Government must be aware of that at this stage in the budget process.

John Swinney: I would think that the maximum cost in terms of the next financial year is likely to be a figure no higher than about £50 million. The financial memorandum will give greater confidence around that point.

The Convener: That is certainly helpful. It is a lower figure than what I and—I am sure—others have heard. Colleagues may wish to pursue that further.

I want to talk about the capital and fiscal framework. It has been a very difficult year in that the capital allocation from the UK Government has been reduced by £185 million—obviously, with inflation, that figure is higher.

When we asked questions with regard to the capital and fiscal framework, the response was that the Scottish Government has

“disproportionately constrained borrowing and reserve powers.”

Since 2016, inflation has been 39 per cent, but the Scottish Government is still working with the same kind of figures that it had all those years ago. Have you had any indication from the UK Government about when it would be willing to review the borrowing figures, for example? Inflation is 50 per cent higher than it was in 2016—perhaps even 60 per cent or 70 per cent higher. What on-going discussions have you had, because that is clearly having an impact on the Scottish Government’s ability to manage its finances?

John Swinney: Those things—any annual or periodic revisions of capital frameworks that are put in place by the UK Government—are tied up with two things. Part of my challenge in this financial year has been that we have had no restating of the budget in the light of the significantly different inflation climate that we face now, compared with when the budget was set. I rehearsed those issues with Liz Smith the previous time I was at the committee.

The budget was set in late 2021, in a context when inflation was benign. Since then— for the whole of this financial year—we have faced raging inflation, which is partly why I am wrestling with the issue that you raised with me in your first question, convener, about the financial pressures in this financial year. There has been no restatement of the budget to take account of that factor. Some of the solution could lie in a restatement of the position.

The other area is the review of the fiscal framework, which is in more of a procedural space where borrowing limits could be revisited and recast. There are discussions to be had with the UK Government on the fiscal framework, and those are at a very early stage.

The Convener: I am sure that other colleagues will ask about the fiscal framework, which is why I have not done so. However, the issue is one that the committee is becoming increasingly concerned about, because we do not seem to have moved forward on it in the past year. I know that there has been a lot of chaos, given that we have had four Chancellors of the Exchequer and three Prime Ministers.

John Swinney: Frankly, I would question the value of any conversation with most of the people I have been dealing with over the interim period during which I have been acting as finance secretary, because of the degree of churn, if I could put it as delicately as that.

The Convener: Absolutely.

John Swinney: I hope that things are settling down, although I understand that there is a UK Government reshuffle going on just now, so who knows? We might have more churn before the day is out.

The Convener: Indeed.

Some capital projects have had to be deprioritised. I am keen to get information on which projects have been affected. I am aware of one in my constituency, for a start. Major rail projects seem to be an area in which there has been deprioritisation. However, the Scottish Government has met its commitment to expand its green investment portfolio, the target on which it has exceeded by around 15 per cent. The current figure is £3.4 billion, so there is also some good news, is there not?

John Swinney: We must be conscious of the fact that inflation will affect capital projects in different ways. For example, any capital project that requires raw material inputs will face significant challenges because of all the implications for supply chains and costs that there have been as a consequence of the aftermath of Covid and the disruption of the conflict in Ukraine. Other aspects of capital expenditure, such as the moves to net zero that you highlight, convener, and investments in research activity, are less susceptible to the erosion of value as a consequence of inflation.

I make the point to the committee that we are having to ask portfolios, in making portfolio allocations, to make prudential judgments about the timing and progress of projects, based on what value they can achieve as a consequence. There will be projects the cost estimates for which are increasing very significantly, so it is not prudential to proceed with them just now. In a few months’ time, it might be possible to secure a more competitive price for those projects through the deployment of capital expenditure at that time, because the inflationary pressure has receded to an extent.

The best way to characterise what we are doing is to say that, rather than reprioritising, we are asking portfolios, in aligning their commitments, to have due regard to the inflationary climate. Maybe we are just using different words, convener.

In my budget statement, I identified four factors before I got on to the detail. On one of them, I said:

"the significant increases in input prices and energy costs mean that our capital budget will be unable to deliver as much as would have been judged possible just a few months ago. The Government will keep these factors under constant review as we take forward the capital programme."—[*Official Report*, 15 December 2022; c 64.]

That, in essence, is what I have just said that we are doing. We are conscious of the corrosive effect of inflation and are trying to make the most appropriate and prudential judgments about when we should deploy particular projects, having regard to the inflationary pressures.

The Convener: However, the problem is that, even if inflation declines dramatically in the way that everyone anticipates it will this year, the prices are still fixed at a higher level and, because the capital allocation has shrunk, you will still have to try to squeeze a quart into a pint pot.

I was intrigued to find out that the green investment portfolio has already attracted £300 million in private investment, with

"£875 million currently under offer or in active discussions."

There is significant private resource available to come in to help to boost and deliver the projects, is there not?

John Swinney: Totally. The Government has to ensure that it is effective in giving policy certainty and direction to the private sector to enable investment to be made. I will give the example of the decarbonisation of electricity.

The Government gave policy certainty that it wanted to decarbonise electricity generation in Scotland. That policy certainty has been given for the entire duration of the Administration—for nearly 16 years—and, as a consequence, we have largely decarbonised our electricity generation means in Scotland. That has not been done by Government investment; it has been done by Government policy certainty and delivered by private investment. That is the type of climate that we must operate.

As for private investment, the other week the First Minister and I took part in a discussion that was arranged by what used to be called the Financial Services Advisory Board. I cannot remember what it is currently called, but it brings together a variety of different interested parties from the financial services community. The lord mayor of the City of London was at that discussion. It was predicated on the significant availability of private sector investment to support a number of opportunities, especially the journey to net zero. We believe that the Scottish Government's policy direction will help in that respect.

The Convener: That stability over such a long period has helped the Scottish Government's policy direction whereas, south of the border, there has been incredible turmoil in energy policy, which has gone in all sorts of different directions: it has reversed and gone up, down and round about. There has been little consistency or long-term financial planning, whether we are talking about wind, solar or nuclear power. I take that on board.

My last question is about growing the tax base and productivity, which is a key area for us. You responded to the points that we made on that in our report by saying:

"Economic modelling estimates that delivery of key components of the strategy"—

the national strategy for economic transformation—

"could increase the size of the Scottish economy by at least £8 billion",

which is almost 5 per cent,

"more than it otherwise would have been in 2032."

You went on to mention a network of hubs to support high-growth tech businesses, the technology sector export plan, a hydrogen innovation scheme and the low-carbon manufacturing challenge fund. However, I wonder what other components will deliver that extra £8 billion.

10:00

Secondly, on ScotWind leasing, you referred to

"£28 billion of potential Scottish economic activity."

Over what time period will that be delivered?

John Swinney: Our national strategy for economic transformation is a 10-year strategy, so my expectation is that activity will be delivered over that period. I will highlight three distinctive important elements. First, there is the development of entrepreneurship—that is the entrepreneurial people and culture element of the national strategy, which is vital, as it relates to some of the points that you have put on the record about the tech scalers. We have already seen formidable improvements in performance as a consequence of some of those concepts, and the Government is investing to roll those out around the country.

The second element is about the necessity of having productive regions and regional economies in Scotland. As an example of that, I recently viewed an investment that the Government has brokered—along with Highlands and Islands Enterprise, Western Isles Council, the Stornoway Trust and the Stornoway Port Authority—in the construction of a deepwater port in Stornoway, on which remarkable physical progress is being made.

That will open up the opportunity for significant new marine-based activity in the Western Isles. The first tranche of that will involve cruise ships being able to birth in Stornoway harbour, which large cruise ships cannot currently do. I heard about some of the preparatory work to develop more economic opportunities in the Western Isles to accommodate the interest and enthusiasm of visitors who come to the area on cruise ships. We have already seen some of that success demonstrated very effectively in Orkney, for example, where cruise ships can get right into Hatston pier.

That first tranche will significantly boost the economy of the Western Isles. That is before we get anywhere near hydrogen and the ability to develop green hydrogen from the renewable energy footprint that will come from the ScotWind process. That is just one example of one regional policy intervention that the Government is involved in supporting; we are involved in supporting many others around the country.

The third element relates to the development of the necessary skills and capacity to ensure that we can make the most of the changes in the economy that are coming our way. As a consequence of the much better dialogue that now takes place as part of the relationship between our college sector and business, for example, I am confident that our colleges are very attentive to meeting companies' skills requirements to support the transition, particularly to net zero, and to be able to invest accordingly.

Those three issues of entrepreneurship, regional policy and skills lie at the heart of addressing the productivity challenge that you put to me, convener.

The Convener: Thanks very much. There was a very positive and productive meeting with my local college—Ayrshire College—just last Friday.

I open the discussion to colleagues around the table, starting with Daniel Johnson.

Daniel Johnson (Edinburgh Southern) (Lab): Initially, I want to follow up on the answer that you gave on the cost for the national care service in the coming financial year, which you stated was approximately £50 million, excluding the cost of increasing pay for social care workers.

The current financial memorandum to the National Care Service (Scotland) Bill sets out the set-up costs for the national care service over a five-year period. The costs for the coming financial year, 2023-24, range from £63 million to £95 million, which would be for the establishment phase of the service's central administration. The running costs for that five-year period would not start to kick in until the five years were almost up. If the plan was to spend between £60-odd million and £90-odd million, and you now say that you will spend £50 million in the coming year, does that imply that there will be a delay in the full implementation of the national care service? If so, what is being held back? What are you rephasing in that plan?

John Swinney: I do not think that it says that; it simply says that that is the best estimate that we have. A financial memorandum looks at the position many years hence. Operational decisions are taken about the expected expenditure for any particular programme. Those numbers will be constantly reviewed. As I have tried to explain to the committee previously, the Government is concentrating on the preparations in two respects—getting the initial organisational arrangements in place and boosting the salaries of social care workers—which is why we have allocated a substantial amount of money in the budget to enable those to happen.

Daniel Johnson: I understand that any financial memorandum is stated broadly. Members are used to such memorandums not necessarily turning out to be 100 per cent accurate, if I might put it that way. However, it strikes me that the memorandum to the bill was published only six months ago or thereabouts. It implied that there would be costs not just in the coming financial year but in the current one of not insignificant amounts. However, you are now saying that the amount that will be spent is almost 50 per cent of the upper end of the range; it will certainly be lower than the lower end of that range. It just strikes me that—

John Swinney: Come on—I think that we are really stretching this point. The sum of money that I have put on the record is in close proximity to the lower end of the range in the financial memorandum. I think that we are at risk of making a mountain out of a molehill here.

Daniel Johnson: Forgive me, Deputy First Minister, but, in my previous life, I spent a long time looking at financial and project plans. If a project or a programme plan was at 20 per cent variance within six months of its being published—here, in essence, we are talking about a variance of 15 or 20 per cent—something would have changed somewhere. You may say that that will not have a significant impact on a programme that is scheduled to cost well over £1 billion. I accept that, but I do not accept that there has been no change and that there is nothing to see.

I am simply trying to understand what has altered in the Government's planning, thinking and assumptions to result in the projected costs for the financial year undershooting what was in a plan that was published only six months ago. It is not a major point, but I think that something must have changed.

John Swinney: All that I am trying to say is that I do not think that there is an awful lot of difference between the two numbers that we are talking about. That is the only point that I am making.

Daniel Johnson: Again, we are talking about a financial year that, in your own estimation, will be incredibly tight. Therefore, understanding how the Government is controlling costs is important. We might be talking about a relatively small amount of money in the grand scheme of things, but such things add up. However, if you are not willing to go into it any further, I will be happy to move on.

I am interested in understanding the risks and the parameters of this budget. There is a great deal of unpredictability. Again, wearing one of my previous hats, I always look at a budget in terms of fixed and variable costs—those that are under our control and those that are beyond it. I have questions on payroll and also on energy and material costs. Very approximately, of the £45 billion of resource spending in the budget, around half—£21 billion, I believe—is going on payroll costs. Do you anticipate that that figure will go up or down in the coming year?

In addition, no public sector pay policy accompanies what we are looking at. I would like to understand whether the £10.50 pay floor that was introduced with the most recent pay policy will continue—or, indeed, increase—in the coming financial year.

John Swinney: There was quite a lot in there. I will try to work my way through all of it as best I can.

I imagine that payroll costs will increase during the year, because I do not think that the degree to which the public sector head count will fall over the course of the year will be outweighed by the increase in salary costs. I am not going to produce an Excel spreadsheet that gives the modelling behind that, but that is my best assessment of the likely position in relation to Mr Johnson’s question.

Secondly, I have not stipulated a pay policy, for the pragmatic reason that the pay policy that we stipulated last year became pretty meaningless pretty quickly. We are trying to do some further work to establish what the parameters might be when it comes to expressing a pay policy. One of those parameters is that organisations that commit to pay deals have to be able to afford them within the budgets that are set. I would not want the committee to think that there were no parameters with regard to pay. There certainly are such parameters. Affordability is the big parameter when it comes to pay policy, as we navigate our way through what is a volatile climate.

Thirdly, the other big variable is energy costs. Those will be influenced by decisions that the United Kingdom Government takes on the management of energy costs but, in essence, we are saying to public bodies and organisations that they must live with those challenges.

The last area that Mr Johnson asked me about was the £10.50 pay floor. In my view, that will rise to £10.90, as a consequence of the steps that we take.

Daniel Johnson: That it is helpful. I will come to energy policy in a moment but, just to round out the conversation on payroll, a number of other costs can be attributed and, again, it is important to manage such things. For example, vacancy rates can have a cost, as they can lead to a supplementation through agency staff, third-party contractors and other outsourced resources. Have you set broad parameters for the use of agency staff and third parties; what is the level of vacancy across the public sector—certainly, in particular, those bits that are directly under your control—and how are you managing those things?

John Swinney: There will be variables in cost. At one stage, public bodies expected to have to deal with the factor of increased national insurance contribution costs. However, that has not been the case; it has been reversed. For example, for local government—the finance of which has been a very active issue—that is a saving of about £70 million. That frees up expenditure within local authorities.

On the fundamental point that Mr Johnson has raised, I can best summarise by saying that any employment arrangement that is not direct employment is more expensive than direct employment and so is generally undesirable.

10:15

One of the points that we are trying to address in, for example, the discussions with the trade unions in the health service is to get to a position whereby we address some of the underlying issues that might encourage or tempt members of staff to operate in an agency rather than to be employed directly. We try to reshape that balance so that more people are on the employee payroll as opposed to being on agency payroll. If you are running a hospital ward, you must have the requisite number of people. If you do not have those people on direct payroll, you must go to agencies, which will be more costly. Therefore, the more that we can undermine or reduce non-employee payroll costs, the better, and that is the strategic guidance that is being issued.

Daniel Johnson: Will you confirm whether that is a formal policy? Have you issued that instruction to the civil service to minimise the use of agency staff? Are formal recruitment freezes in place, or are you taking short-term steps?

John Swinney: I do not think that I could say that we have issued a formal directive to all public bodies on that point, but those are well-established practices that we would expect leaders of organisations to undertake because of the fundamental point that I made to Mr Johnson that non-employee payroll costs are higher than employee payroll costs. In terms of the prudential management of public finances, we would expect individuals to undertake that.

In relation to the Scottish Government, we have headcount controls in place. We are working to reduce overall staff numbers. Actually, I will express that differently. We are working to contain staff numbers. We have increases in staff numbers because, a few years ago, we were not responsible for any aspects of social security. As we now have responsibilities, we have got more employees as a consequence. We are trying to reduce those costs and we have formal headcount controls in place that require appropriate sign off in the organisation.

Daniel Johnson: At the risk of continuing a technical line of questioning, I will mention energy costs. Everyone is familiar with the issues around those rising costs. All organisations are facing them, and the public sector in Scotland is no different. What is the total energy bill? What is the exposure in relation to gas in particular? The UK Government is ending its energy support arrangements in April. What will the implications of that be for the public sector? Do you have a broad sense of the public sector's risk exposure to the volatility of gas prices over the coming budget year?

John Swinney: It would probably be best to say that I will write to the committee with some detail on that, because I do not have a specific comprehensive cost of that to the front of my mind. I would counsel that this is not just about gas prices—the gas price is a driver of the electricity price, which is of great concern.

The reason that I had better get precise information is that there will be extensive collective public procurement of electricity and gas supplies, which might have been bought at a time when that has provided us with more or less protection. I think that I had better write to the committee about that detail.

Daniel Johnson: I apologise for being very technical, but those are significant organisational and budgetary exposures. Those aspects could be overlooked, so that is of interest the committee, given its remit.

John Swinney: The point on which I am happy to agree with Mr Johnson is that there is a whole host of inherent pressures in the budget.

To go back to the starting point of Mr Johnson's questions in this section, he made a point about the degree of risk that is inherent in the budget. I have to accept that there is a significant amount of risk, because we are living in volatile times in relation to inflation, the implications of inflation on employment costs, energy prices and the cost of procuring materials, although the latter is getting better now. Earlier this year, that was at its most acute, sharp and difficult, but it is getting better now that some supply chains—or their alternatives, due to disruption related to Ukraine—are beginning to settle down. However, we still face significant risks, and, of course, it could all change dramatically.

Daniel Johnson: I have one final question; I am happy for you to get back to the committee on it, as I do not expect you to have this information to hand. One of the key points in your introductory remarks was the number of demand-led budget lines being a source of uncertainty. Do you have a global figure for the proportion of the Scottish Government budget that is demand led?

John Swinney: I do not have one off the top of my head, but I could provide that to the committee. It will be a much larger proportion than it ever used to be in the past, because of the presence and prevalence of social security expenditure. It will also include aspects of concessionary travel, education maintenance allowances, agricultural payments, rail subsidy schemes and a number of other things. We can provide the committee with our best estimate of that.

Daniel Johnson: The committee having an understanding of the risk profile and uncertainty would be helpful—thank you very much.

Douglas Lumsden (North East Scotland) (Con): I want to ask a bit more about public sector reform. The committee was disappointed that we did not have any of the initial outcomes. The Auditor General said that public services reform is now urgent. Will you talk us through what is happening and when the committee will see the Government's thinking on that? Will you provide the timetable for that?

John Swinney: I am conscious of the committee's interest in this topic, and I have a feeling that the Government and the committee might have been talking at cross-purposes about it. I certainly do not want the committee to have the view that we are waiting for some moment of public sector reform to come along. Public sector reform is under way and on-going, and there is a number of live examples that I can cite. There is the best start bright futures programme, which is in relation to our child poverty eradication work; that involves a significant amount of public sector reform. The work on keeping the Promise is about public sector reform, because it relates to how we support our children who face the greatest of challenges. There is work under way on education reform around the Scottish Qualifications Authority and Education Scotland. There is the wider reform work that is being undertaken through the introduction of early learning and childcare, which was completed last year.

I understand that the committee feels that there is a big report waiting to be published. The way that I would characterise it is that the Government is committed to the Christie commission principles; we have been taking those forward on an on-going basis since the commission reported.

The examples that I just gave are the most recent examples of what we have undertaken. The Covid recovery strategy, which involves a significant reshaping of the public sector into person-centred public services, is another of the most recent distillations of the work that the Government is undertaking.

Douglas Lumsden: If we take that a stage further, we might think of the local governance review about public bodies working closer together or possibly co-locating to get the asset base down and perhaps even reduce the headcount, as you discussed earlier with Daniel Johnson. I guess that we were expecting more information about areas such as that. Is that work on-going?

John Swinney: I appreciate the question. We are working directly with public body leaders on estate rationalisation and on having bodies working together and we frequently encourage steps towards reducing estate utilisation by co-location. We are now in a context in which the world is quite different because people are not all working in offices as they used to, so there are opportunities to reshape estate provision. Those should be taken—make no mistake—because of the necessity to make an impact by reducing overall costs.

A range of activity and dialogue is being taken forward with public body chief executives. Groups of public body leaders are working together on some of those projects and we have encouraged and motivated them to take as much significant action as they can.

Douglas Lumsden: What should the committee expect to see in that regard? Will there be a blueprint for how we all work together? We talk about digitisation, and we must be more efficient in future. There will probably have to be a headcount reduction to maintain the public sector pay bill as it is or to have it increase only slightly. The committee would like to see where we are going and what impact that will have on our public services.

John Swinney: It depends on what you mean by “a blueprint”. If that is a list of office buildings to be rationalised, that is unlikely. I do not think that that is how such a programme should be predicated. We should be starting from a perspective of looking at how to reduce costs, improve efficiency and rationalise the estate and should then challenge public bodies to ensure that that happens.

Some of those things will have to happen because of the financial constraints caused by the budget. That will apply right across the public sector. I hope that the Government’s response to the committee’s report, and the detail that we have gone into, gives the committee more clarity about the direction of travel, but it does not give a list of operational changes that will take place. We can report on those as they take their course.

Douglas Lumsden: The response also does not give a timetable, which I think was what the committee was looking for.

John Swinney: I am very happy to keep the committee informed about developments in that respect, which I think will address some of the issues.

Douglas Lumsden: Do you agree that all those things are vital in trying to maintain the public sector pay bill at a level close to where it is now?

John Swinney: Absolutely.

Douglas Lumsden: We look forward to seeing that.

Last time you were here, Deputy First Minister, you mentioned flexibilities and moving capital to resource spend. Is there any update on whether the UK Government has given you the flexibility to do that?

John Swinney: The UK Government is in dialogue with us about all issues of the management of this year’s budget. That is part of our active discussion with the UK Government and I am happy with the nature of those discussions so far. That will have an ultimate effect on our budget management.

Douglas Lumsden: Do you have a plan B if that flexibility is not granted?

John Swinney: I have made a solemn and absolute commitment to balance this year’s budget and we must accomplish that task.

Douglas Lumsden: My final question is about non-domestic rates. Last month, I asked for details about the re-evaluation. We still have not received those, and, obviously, the poundage has been frozen but the intake from non-domestic rates has increased by about £250 million. I am trying to get an idea of what is behind that increase. Do you have any more details?

John Swinney: I will check where we are with the information that the committee should have had about that and will get that the committee as soon as possible.

John Mason (Glasgow Shettleston) (SNP): I do not want to go over too much old ground, although it is a temptation.

Recently, the International Monetary Fund said that the UK economy, unlike that of most other competitors, will not grow this year. Last week, interest rates went up to 4 per cent. Will either of those issues have an impact on next year's budget?

10:30

John Swinney: The context cited in the IMF report will have an impact on the budget; if the IMF is correct, it would be a mighty achievement for us not to be affected. Rising interest rates are a particular challenge because that affects several points in relation to investment in the economy at individual and corporate level. We need that investment to drive growth in the economy. For example, if a rise in interest rates leads to a reduction in house transaction activity, that will have an effect on land and buildings transaction tax revenue and subsequently on the Government's budget.

John Mason: Okay, thank you.

In our dialogue with council colleagues we have heard that councils are struggling to balance their budgets, just as we are struggling to balance ours. Everyone realises that everyone else is in a difficult place. Councils have spoken to me about having more freedom to raise revenue. One example that they gave relates to private landlord registration fees and another is about being allowed to increase penalty charge notices for parking, which could improve the illegal parking situation and provide a bit of extra money. It has been mentioned that that could raise £3 million for Glasgow City Council. Is there any space for that kind of thing?

John Swinney: I am happy to explore propositions from local government. On the question that the convener asked me about the work on council tax, I am very keen that we make early progress, so that if there is greater flexibility that local authorities can deploy in relation to council tax we can seek to implement that.

Mr Mason put two specific examples to me. I am not sure where power and control lie in relation to fixed-penalty notices—I would have to take that away to check.

I am happy to consider any propositions that might assist local authorities. I recognise the challenge that local authorities face in the current context. We all face those challenges, as Mr Mason rightly says. I have a finite sum to allocate and I have taken a decision to increase taxation—not without controversy. That decision increases the resources at my disposal, which has enabled me, in the round, to increase the budgets available to local authorities by more than £550 million. If we were to increase that any further, we would have to take resources from somewhere else.

John Mason: This is not my area of expertise. However, councils tell me that all local authorities agreed that there could be an increase in fixed-penalty charges but that the issue seems to have got stuck somewhere.

John Swinney: I will take that one away, because I cannot quite recall what the arrangements are. I will provide the committee with a response on that.

John Mason: You suggested that you might be able to give councils a bit more flexibility. Another example that councils gave me was that some money is ring fenced for the health and social care partnerships, but any savings that can be made between the health board and the partnership cannot be moved out to help another part of the council that is under more pressure. Would you consider flexibility in relation to that kind of thing?

John Swinney: I have to say that I am pretty sceptical about that. That issue is directly related to the fact that we have 1,700 people on delayed discharge in our hospitals. If underspend somehow emerges out of more efficiency in health and social care partnerships, I would like to see it used to ensure that people are properly supported in a care environment that is appropriate for them. Therefore, it is unlikely that that resource should be taken out of health and social care partnerships and put into some other area of council activity.

We have a collective understanding that our hospitals are operating at far too intense a level—the last time that I looked at the data, percentage hospital occupancy was in the mid-90s, when it should be at a maximum of the mid-80s, and we have 1,700 people on delayed discharge. If resources have been freed up because of efficiencies in health and social care, we should use them to expand our health and social care footprint.

John Mason: Okay. Another suggestion that has been made to me is about teacher numbers. Pupil to teacher ratios vary around the country's councils. I do not think that any of us wants to reduce the number of teachers, but it was suggested that Glasgow and some other councils have an above-average ratio at the moment and could perhaps have flexibility to at least move to the national average instead of having that extra investment.

John Swinney: Local government has raised those issues with us, which are a subject of discussion with the Cabinet Secretary for Education and Skills; she will make a statement to Parliament today on the subject.

Michelle Thomson (Falkirk East) (SNP): Good morning. I want to pick up on a couple of themes that have been touched on. First, I have been through all the responses with regard to public service reform, and I can see that a lot of stuff is going on—that is absolutely clear. I await further detail on that with interest.

It is no bad thing to ask local government to come up with its own ideas, and I am sure that it will do so. However, a bottom-up approach is only one way. What consideration have you given to a top-down approach? I have raised the point previously that we have duplicate functions—in particular, around human resources and finance directorship—across our 33 local councils. Presumably, we have 33 finance directors on an average salary of 88 grand or so—roughly £2 million in total—not to mention their departments. We could have centralised FD and HR functions across even just some local authority areas, but it is unlikely that local councils themselves would come up with that idea. Is it something that you would consider?

John Swinney: Just so that we are all on the same page, there are, as a matter of fact, 32 local authorities.

Michelle Thomson: Yes, 32. Sorry.

John Swinney: I think that what you suggest is an option, but I can just imagine the sight of John Swinney turning up at COSLA headquarters to say, “We’re going to do a top-down reform of local government finance departments”—I imagine that Mr Lumsden would be at the front of the queue to support me in all my efforts. It is possible, but I would much rather encourage a process in which local authorities make the necessary changes at their own hands. I do not think that the Government should be making those changes to them.

Let me express my frustration about that point. You alight on a particular problem. I go back to the world that I used to occupy as education secretary, dealing with 32 education authorities and 32 directors of education. Local authorities are of widely varying sizes, so the director of education in the city of Glasgow and the director of education in Clackmannanshire, for example, will be dealing with fundamentally different propositions. To take the Clackmannanshire example, some years ago, Clackmannanshire and Stirling councils did quite a bit of collaboration and got very close to running a joint education service. Nobody lost their identity or their focus on education. However, the councils decided to dismantle those arrangements, which I think is a point of regret.

There is scope for exactly what you suggest. I have encouraged local authorities to work together on the creation of regional improvement collaboratives among groups of local authorities, in which a lot of good work on education goes on. Shared leadership would help with an awful lot of these things as well.

I accept that that is me beginning to get into the territory of specifying what local government should do. I am left with the pretty strong impression and message from local government that that would not be particularly welcome.

Michelle Thomson: I have every sympathy with the view that you expressed and I have probably made myself very unpopular by making my suggestion. I am acutely aware of local sensitivities, but there are duplicated functions, such as the FD function, which are not predicated on important outcomes for people. There is a lot of complexity, but the FD functions are counting and measuring broadly similar things across a range of services. If anything, changing that would cast more light on how money is being spent. That is an unpopular view, I know.

John Swinney: There is a substantive issue there. To be clear, it would be wrong for the Government to traipse in and say, “This is what’s going to happen.” I do not think that that would go very well, to be honest.

However, if you look at other propositions, you see that local authorities have come together in quite intense collaboration on some of the city deal and growth deal propositions. At economic strategy and development levels, local authorities are working together much more intensely than they have done in the past. That throws up significant opportunities for authorities to work closely together, rationalise, reduce costs and make sure that they have more.

Nobody should lose their council boundaries. The Government is clear that we are not having a local government reorganisation but seeking collaboration between councils. I think that I am correct to say that, in Mr Lumsden’s neck of the woods, Aberdeenshire Council’s headquarters are within the boundaries of Aberdeen City Council. I know that a lot of joint working happens, but it would be quite a good thing if it happened a bit more intensely.

There is scope for that and I would simply encourage it. However, I do not think that it would help if the man from the ministry turned up being helpful.

Michelle Thomson: That is understood.

The fiscal framework review came up earlier. I want to dig down into what exactly is happening. I fully accept the issue to do with the multitude of personnel changes in the UK Government—it is clear that there has been quite a revolving door—but I want to understand exactly where we are. As far as I am aware, the terms of reference have not yet been agreed. Where exactly are the blockers? What action have you taken, where you have been unable to make progress? Reading through the responses, I am no more certain of where we are with the review. We have highlighted its importance.

John Swinney: Essentially, the Scottish Government and the UK Government have communicated the topics that we are interested in pursuing. We have not been able to make headway on that, largely because—and I am not saying this to point the finger; it is just an acknowledged reality—there has been an awful lot of change in the UK Government and a lot of other issues to wrestle with.

I will see the Chief Secretary to the Treasury later this week, so I will have the opportunity to pursue some of those discussions with him. I look forward to that conversation, because I am sure that we can make some progress. I can keep the committee up to date on any developments that emerge. I do not think that there are any blockages, but an awful lot of other things have had to be sorted out. Given what has happened in the UK Government in the past few months, I quite understand that the Treasury has had significant issues to wrestle with, and this is not mission critical.

10:45

Michelle Thomson: Is it your perception that there is still a genuine appetite for change in the UK Government, or is it hard to determine that before your meeting on Friday, when you might ask that question?

John Swinney: The UK Government is committed to the fiscal framework review. I take that at face value. We will embark on those discussions in the most constructive way we can.

Michelle Thomson: This is my last wee question on this. Do you hope that some kind of combined statement of intent will emerge from the meeting on Friday, including some specifics about any progress that has been made? Is that an outcome that you hope for?

John Swinney: This is a routine discussion that also includes the Welsh finance minister; FISC—the finance interministerial standing committee; there are too many acronyms in this world—is happening on Thursday and we will have the opportunity to discuss those issues.

Liz Smith (Mid Scotland and Fife) (Con): Mr Swinney, I go back to the national strategy for economic transformation and specifically to the response to paragraphs 79 and 80. In your response, you said that three things are critical: entrepreneurship, productive regional economies and the necessary skills for building capacity. On that final point, there is an issue around ensuring that some of the people who have come out of the labour force are encouraged to go back in. A huge amount of economic analysis has been done down south and in Scotland about just how difficult that process is, partly because of long Covid but also because of changing circumstances, such as people not going back to the office, which you referred to. What are the best policies to implement to encourage more people to do that—people who have the huge range of skills that we desperately need in the economy to improve productivity and so on? I know that it is a difficult area, but what do you think we should be doing?

John Swinney: I might best address that question by looking at two different categories of people. The first is people who were economically active and, as a consequence of what happened during the past couple of years, have decided not to continue that economic activity. Covid has been very disruptive to lots of people in lots of ways. We have to find ways of motivating people to continue to make an economic contribution for perhaps longer than they want to. The key to that is entrepreneurship. A lot of those individuals probably have an economic contribution to make through entrepreneurship, and we have to make sure that our entrepreneurship activities reach them and provide them with a way of taking forward their ambitions. That is one grouping.

The other grouping is those who have been economically inactive for a lot longer. I see them as coming under part of the work that we are doing on the tackling child poverty delivery plan.

We have to erode the level of economic inactivity in Scottish society. As I think that I have said to the committee before, in a year, we have seen an improvement of about 1 percentage point in economic inactivity. The committee might say, “Well, that is only 1 per cent”, but it is pretty significant. Economic inactivity levels are about 21 per cent in Scotland, and they can probably only ever come down to about 15 or 16 per cent. Narrowing it by 1 per cent is therefore quite an achievement.

It is necessary to have a relentless focus, in a supportive and holistic way, on those individuals, because none of those cases will be simple. They will all be complex, and people will need complex interventions help them get into economic activity. However, we have to do that. As Liz Smith will know from all her dialogue across the economy, everyone is short of people.

Liz Smith: That is an interesting answer. Is an aspect of this about helping employers to understand that they have a big role to play in making their workplaces more attractive from both a working practices angle and a financial angle?

A huge number of entrepreneurs are in the private sector, where the Government has to be careful about intervening too much. What can the Scottish Government do to encourage employers to think carefully about how attractive their workplace is, when the alternative is people staying at home? Is that a big part of the issue? That has been suggested in some of the evidence that we have taken.

John Swinney: Liz Smith rightly cautions me about treading too far into private sector management practices, but there are opportunities for employees to continue to be involved in activity while working in a different fashion.

Three years ago, working from home was the exception, not the rule; hardly anyone did it—hardly anyone used Microsoft Teams and all the rest of it. The world has changed and people are now able to live their lives in a slightly less congested fashion. I would encourage employers to be as flexible as they can be with their workforce—I would be surprised if they did not get all the benefits from their workforce that they would expect to get.

Liz Smith: I saw an interesting article about the possibility of allowing the over-55s some tax relief. They might be more encouraged to stay in the workplace if they had some tax relief on the extra savings that they would make during that period of working when they were older. Might such financial incentives help?

John Swinney: I am sure that such things help when people make those judgments. However, I am not certain where we would be able to exercise such reliefs, because I do not think that we have the flexibility to do what Liz Smith suggests. Both employers and the Government have to look with care at what they can do to maximise individuals' continued economic contribution.

Liz Smith: I am sure that the answer is yes, but I assume that the Government is also looking at transport policy and housing policy, which are all part of making work more attractive to people.

John Swinney: Definitely.

Liz Smith: Good.

I am sure that we will have the political debate on the fiscal framework at a much later time. However, an issue on which I think that the committee is agreed has been brought to us—namely, the difficulties caused by the gap or lag in the timescales for the Office for Budget Responsibility forecasts and the Scottish Fiscal Commission forecasts.

The Scottish Government has to be at the behest of both the OBR and the Scottish Fiscal Commission, whereas the Treasury requires the OBR forecasts to make its policy statement. Can that complication be resolved? Can we get over that problem? Would you like to see it resolved as we move from the fiscal framework that was introduced in 2016 to the framework that will be introduced in 2024, or whenever it happens?

John Swinney: As the person who negotiated the fiscal framework, I recognise its necessity; there has to be a fiscal framework. However, I also accept that it has to be practical in its operation. One of the issues that has been demonstrated to us in the past 10 months is that the fiscal framework does not work when there is an inflationary shock of the type that we are currently facing, requiring me to do some really demanding things that have not gone down well. I have had to cut employability budgets, and I am pretty clear that the Social Justice and Social Security Committee of the Parliament does not think highly of that decision. However, I had very few options in trying to balance the budget.

If we enter the discussions from the perspective of trying to ensure that the framework operates effectively and practically, that will be a helpful way to proceed.

Liz Smith: Would you like to see the framework properly inflation related?

John Swinney: A variety of questions come to mind. One of the points that the convener made was about being able to offer long-term certainty to the wider marketplace. That is really quite critical, not just for the wider marketplace but for the third sector and local authorities. We are often in a kind of stop-start situation in budgetary terms, and I understand that that is not desirable. I think that there is quite a lot that we could do to address the practicality of the framework.

Liz Smith: When we had the academic panel in, there was a lot of discussion of the problem about forecasting. The witnesses were quite willing to accept that there is a difficulty with forecasting when one Government is looking at two sets of figures and the other Government is looking at one set of figures. Can we do something about that in the next fiscal framework, or is the situation just a fact of life?

John Swinney: We can certainly try to address that issue. We follow, and are obliged by statute to follow, the advice of the Scottish Fiscal Commission, which of course reflects on the OBR advice. That is the position in statutory terms. In approaching the budget this year, I was not thinking that I had to reconcile the position of the Scottish Fiscal Commission with that of the Office for Budget Responsibility; I was thinking that I have an obligation to listen to what the Scottish Fiscal Commission is saying and to take my budget decisions on the basis of that premise. I did not feel any confusion about where the centrality of advice comes from.

Liz Smith: It is perhaps more a question of timing.

John Swinney: I am very happy to explore any issues around that.

Liz Smith: Thank you.

The Convener: On employability, I was intrigued by the comments about the Dundee pathfinder project. We will want to look at that further.

You will be aware that the UK Government is talking about when it will raise the pension age from 67 to 68, and about bringing that forward from 2044 to 2034, which will, of course, increase the workforce. I do not know how many people aged 67 to 68 will want to remain in the workforce, but that is when the state pension age will change.

In terms of employability, yesterday I was at ACS Clothing in Motherwell. I do not know how familiar you are with that facility. It is a circular economy facility—it is the largest clothing recycling facility in Europe and it puts clothes back into the marketplace. It employs 150 people, and 16 per cent of its workforce have disabilities. It also has a very high proportion of refugees and ex-offenders working there. It takes a lot of people from the margins, and it pays well. It is very high tech and has a very low carbon footprint and so on—a lot of very good things are happening there. My point is about trying to learn from some of that best practice and seeing how it can be expanded around Scotland.

11:00

John Swinney: Could I come in on that point, convener? You alight on an important question.

I am not familiar with the status and nature of ACS. However, at the business in the Parliament conference, I had the privilege of talking to the chief executive of Dovetail Enterprises in Dundee, which is a furniture and mattress manufacturing facility. I think that it would be fair to say that Dovetail Enterprises is a social enterprise—that would be the best description, as it reaches out to create economic opportunities for people who are often remote from the labour market.

One of the projects that the chief executive talked about was the company's success in landing the contract for furnishing and equipping the Social Security Scotland offices in Dundee. Having been in those offices a few weeks ago, I can attest to the quality of its product. That was a perfect example of how public expenditure through public procurement done properly can result in beneficial social and economic outcomes. There are people who are in the labour market or actively engaged in labour who would not be, were it not for the degree of support that they have had through employment at Dovetail Enterprises. It will be exactly the same in the example that you cite, convener.

That goes back to one of the points that Liz Smith made to me in a slightly different context. It is for employers to think about how they might be able to engage and activate people who are not active in the labour market and for them to be open to doing that. Not everybody will be prepared to work with ex-offenders, but we need to help people to get their lives back on the road.

The Convener: ACS is also a social enterprise. The cross-party group on the circular economy is going to visit it. I asked the company about ex-offenders and was told that the level of productivity is excellent. The company would not mind at all if the whole workforce was made up of ex-offenders because they are able to deliver the product that is required.

I have a question about the private finance initiative and public-private partnerships, which placed a significant annual financial burden on the Scottish Government when it came into office in 2007. I understand that interest rates going up has had a significant impact. What impact are increased payments having on the Scottish Government and local authorities?

John Swinney: In certain projects, there will be implications as a consequence of interest rate changes. I do not have a detailed picture in front of me. The Government publishes the information on PFI projects annually, but if I can produce more information for the committee, I will look to do that.

The Convener: Before the rise in inflation, my local authority had to pay about £16 million or £17 million for schools that were completed in 2007. Those payments go up to 2037, but I understand that they have increased significantly because many of them are tied into current interest rates as opposed to rates that are fixed over a period of time. So that we can consider the implications of that across the public sector, any information on the issue would be helpful.

John Swinney: I will happily do that.

The Convener: With that, as there are no other questions, I bring the evidence session to a close. We will have a five-minute comfort break.

11:04

Meeting suspended.

11:08

On resuming—

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

The Convener: Our next item is consideration of the Budget (Scotland) (No 2) Bill at stage 2. We have no amendments, but the standing orders oblige us to consider and agree formally to each of the bill's sections and schedules, and its long title. We will take the sections in order, with schedules being taken immediately after the section that introduces them, and will take the long title last. Fortunately, the standing orders allow us to put a single question on groups of sections and schedules that are to be considered consecutively. Unless members disagree, that is what I propose to do.

The question is, that section 1, schedule 1, section 2, schedule 2, section 3, schedule 3, and sections 4 to 11 be agreed to. Are we agreed?

John Mason: Yes!

Members *indicated agreement.*

The Convener: John Mason has continued his Richard Lyle impression, even at the committee.

Section 1 agreed to.

Schedule 1 agreed to.

Section 2 agreed to.

Schedule 2 agreed to.

Section 3 agreed to.

Schedule 3 agreed to.

Sections 4 to 11 agreed to.

Long title agreed to.

The Convener: That ends stage 2 consideration of the bill. I thank the cabinet secretary.

We move into private session to consider our work programme.

11:09

Meeting continued in private until 11:18.

This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

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