



OFFICIAL REPORT
AITHISG OIFIGEIL

Finance Committee

Wednesday 7 September 2016

Session 5



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FINANCE COMMITTEE
3rd Meeting 2016, Session 5

CONVENER

*Bruce Crawford (Stirling) (SNP)

DEPUTY CONVENER

*Alex Johnstone (North East Scotland) (Con)

COMMITTEE MEMBERS

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

*attended

THE FOLLOWING ALSO PARTICIPATED:

Alistair Brown (Scottish Government)
Derek Mackay (Cabinet Secretary for Finance and the Constitution)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Finance Committee

Wednesday 7 September 2016

[The Deputy Convener opened the meeting at 10:00]

Interests

The Deputy Convener (Alex Johnstone): Good morning, colleagues, and welcome to the third meeting of the Finance Committee in the fifth session of the Scottish Parliament.

The membership of committees changes, and we have experienced changes since our previous meeting. I pay particular tribute to Mike Russell, who, as the committee's convener, did a lot of work to establish the committee, and to Kate Forbes for her robust contributions in our first two meetings.

We have two new members to replace those who have resigned from the committee. I formally welcome to the committee Bruce Crawford and Maree Todd, and give them the opportunity to declare any relevant interests. Does Bruce Crawford have any relevant interests?

Bruce Crawford (Stirling) (SNP): I have no relevant interests to declare.

The Deputy Convener: Does Maree Todd have any relevant interests?

Maree Todd (Highlands and Islands) (SNP): No, I have no relevant interests to declare.

The Deputy Convener: Thank you very much.

Convener

10:01

The Deputy Convener: Item 2 is the choice of a new convener. I make it clear that, under the agreement, the new convener will be a member of the Scottish National Party.

I invite nominations for the post of convener of the committee.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): I nominate my friend and colleague Bruce Crawford MSP to convene the committee for this session.

The Deputy Convener: There are no further nominations.

Bruce Crawford was chosen as convener.

The Convener (Bruce Crawford): I thank members for their support, and I look forward to working with members and the Cabinet Secretary for Finance and the Constitution in the coming months. We have a lot of work ahead of us, and no doubt there will be significant challenges that we will have to take on. However, you will find that I will, as always, try to put the integrity of the committee to the fore.

Let us get on with the business in hand.

Decision on Taking Business in Private

10:02

The Convener: Item 3 is to decide whether we will take item 5 in private. Do we agree to do so?

Members *indicated agreement.*

Cabinet Secretary for Finance and the Constitution

10:03

The Convener: Agenda item 4 is evidence from the Cabinet Secretary for Finance and the Constitution, Derek Mackay MSP. Mr Mackay is accompanied by three Scottish Government officials: Alistair Brown, acting director of financial strategy; Scott Mackay, deputy director for financial programme management; and Andrew Watson, deputy director for financial strategy. I welcome you all.

Cabinet secretary, I understand that you wish to make an opening statement.

The Cabinet Secretary for Finance and the Constitution (Derek Mackay): Thank you and good morning. It is a pleasure to be with you. I congratulate Bruce Crawford on his first meeting as convener of the Finance Committee.

There is a strong record of co-operation between the Scottish Government and the Finance Committee. As a former member of the committee, I look forward to strengthening that relationship as we enter a new fiscal environment.

As I have said before, the work that we will do together over this parliamentary session will be of real and lasting significance. We will need to work together to address challenges in the public finances.

The 2015 United Kingdom spending review delivered another tight budget settlement. The discretionary resource budget will fall in real terms and, although the capital budget will increase slightly, it remains significantly lower than its peak in 2009-10. We do not yet know what impact the autumn statement will have on those funding totals, but we know that the chancellor has said that he will use the opportunity to “reset” economic policy.

On the fiscal and constitutional outlook, we are in uncharted territory. The implementation of the Scotland Act 2016 is clearly going to be a key issue for Government and the Finance Committee, and there is good ground for us to build on. Our plans for using the powers in the act were set out in the programme for government that was published yesterday. The issues that are presented by the European Union referendum will be of key interest to the committee.

As well as looking at the strategic perspective for the next five years, we have decisions to take in the short term about this year’s budget process. I restate that these are exceptional circumstances. I am grateful to the committee for considering the

issues that I have raised in past discussion, and hope that my letter of last week has been helpful in addressing your range of questions.

My priority remains to ensure that the 2017-18 draft budget reflects as accurately as possible the implications of the EU referendum result for public spending in Scotland. The accumulation of risk and uncertainty for the Scottish budget, which will not be resolved until this year's autumn statement is published, leads me to propose holding back the draft budget for clarity.

I am also happy to offer to take other steps earlier in the autumn to support the committee's scrutiny ahead of the budget, by exploring what additional material the Scottish Government could provide to it before publication of the draft budget.

It would, of course, be possible for committees to begin taking evidence from stakeholders on the budget to examine priorities and financial issues in their areas of interest. I would be happy to support that. I also understand the desire for intense budget scrutiny when the draft budget is published, and I would be flexible in supporting that also through more frequent meetings, for example.

Looking beyond this year's process, I remain very supportive of proposals to establish a joint working group to look at the future of the budget process and would be happy to discuss that today, too.

I will offer a couple of remarks about the EU referendum, as it relates to financial matters. As I set out in my letter last week, with respect to understanding the impact of the EU referendum outcome, there is no precedent. The EU referendum outcome has created a great deal of uncertainty not just in Scotland and the UK but across Europe as a whole.

Although the UK Government's confirmation that it will guarantee in the short term some elements of European expenditure has helped to an extent, I would like it to go further, particularly with EU structural funds, Scottish rural development programme projects and European maritime and fisheries fund projects that begin after the autumn statement, for which there is no certainty at this stage. We are, of course, engaging with the Treasury to find a way forward.

The best immediate course of action for Scotland's economy is to support our businesses, and we have announced plans to inject a further £100 million of spending this financial year into a range of capital infrastructure projects. Businesses will also be provided with wider support to help them navigate in these uncertain times.

Finally, I should confirm that considerable uncertainty remains around the prospects for the

chancellor's autumn statement, with regard to the economic forecasts that the Office for Budget Responsibility will be developing and the response that the UK Government will take on the public finances. I will continue to engage with the Treasury to seek clarity about the issues, working where relevant with colleagues in Wales and Northern Ireland.

We are also continuing to pursue and progress the detailed implementation of the revised fiscal framework and, as I said in my letter, I will be happy to keep the committee updated on that as we go forward.

I am happy to take questions on any of those matters, convener.

The Convener: Thank you, cabinet secretary. You mentioned that the Scottish Government would—I hope that I get the terminology right here—produce and publish, or prepare to consider producing and publishing, additional information that would help the committee with scrutiny of the budget. To help the process, would you be happy for your officials and the committee clerks to sit down following this meeting and discuss what elements that might contain, if that is what the committee wants?

Derek Mackay: Of course I would. That would be in the spirit of the discussions that we have had. I recognise that members want to pursue and probe the budget issues. I also want that work to be accurate. Therefore, I would support that process by allowing officials to engage as constructively as possible.

The Convener: There is one other area that I would like to explore. As you probably know, cabinet secretary, I am new to this committee, and I am trying to improve my understanding of some of the processes.

I understand that the Scottish Government produces a budget before the autumn statement and will be reliant on UK macroeconomic data that was published by the OBR in March—pre-Brexit—to produce tax forecasts for 2017-18. Given that, to what extent do you think that you will be able to take into account the impact of Brexit on tax forecasts? Importantly, what role will the Scottish Fiscal Commission play in that? Have you had any discussions with the Scottish Fiscal Commission about preparing forecasts without post-Brexit data?

Derek Mackay: I will cover some of that and will ask Alistair Brown to talk more about our engagement with the Fiscal Commission.

In these early days, as we begin to work on our own infrastructure plans, we are still reliant on the OBR informing UK Government decisions. The Fiscal Commission will provide oversight of our

figures before it takes up its fuller responsibility of producing its own forecast, and it is aware of the direction of travel in which I wish to take the budget process. We have had good, constructive discussions around that but, at this stage, we are all reliant on the OBR's forecasts, which will drive the UK Government's autumn statement and then inform our budget process.

Alistair Brown (Scottish Government): The minister has made the key points. I confirm that, as the minister said, we are speaking to colleagues in the Scottish Fiscal Commission about the scrutiny and reporting work that they will have to do on the forecasts that we will produce in respect of 2017-18 and the timing of that work, to ensure that they are ready to respond according to whatever timing is eventually decided. The Fiscal Commission will do the forecasting work for 2018-19 onwards, in line with the statutory responsibilities that are set out in the Scottish Fiscal Commission Act 2016.

The Convener: Understandably, a number of members want to ask questions about timing issues. Alex Johnstone will begin the questioning on those issues. Before he does so, however, in order that we get the bigger picture, Willie Coffey will ask a question about the discussions that have been going on between the UK Government and the Scottish Government.

Willie Coffey: Good morning, cabinet secretary. I want to explore a wee bit the relationship that you currently have with your counterpart, the chancellor. You said that he has said that he is about to reset economic policy. Is he aware of the impact of the delay and the potential significance of the change in the autumn statement for all the devolved Administrations?

Derek Mackay: That is a fair question. On taking up my post, I engaged with the previous chancellor, George Osborne, who indicated that the likely scenario was an emergency budget. That has not transpired; instead, everything has been put into the chancellor's autumn statement. In the engagements that I have had with them, the previous chancellor and the current chancellor have said that there will be an adjustment, which the new chancellor has described as a resetting of economic policy.

I wrote to the chancellor, explaining the difficulties that it causes for us when we do not have clarity around our position, and I tried to tease out what the timescales would be for his autumn statement and the contents therein. I got a reply that I am happy to share with the committee, but it does not take the issue forward because I have received no further clarity on timescales other than what we already understand through precedent, which is that the budget will be announced in late November or early December. I

have been told nothing of the substance of the chancellor's statement, which leaves us in the same position as we were in before. Of course, I have expressed the difficulties that that causes this Parliament and the Scottish Government in taking forward our budget, and we are not alone in that. Of the other devolved Administrations, Northern Ireland will also not produce a budget before the autumn statement. I think that all the devolved Administrations are pursuing the chancellor for clarity.

I have read the statements that the chancellor has made and the answers that he has given in the House of Commons, and his current position is that there will be a financial adjustment that will reset economic policy. However, he is giving nothing away. I am sorry that I cannot be more helpful, but I am afraid that I am in the hands of the chancellor.

Willie Coffey: Has the chancellor got access to the figures that he needs? To be fair to him, is he in a position to provide that information?

10:15

Derek Mackay: To be fair to him, the chancellor is waiting for forecasts and OBR figures that will drive his calculations. When he has them, he and his Government will determine what they will do on tax and spending, which will have clear knock-on consequences for the Scottish budget—on spending through Barnett consequential and the block grant adjustment, and on our relative tax position.

The chancellor is waiting for the OBR forecasts. He could take fiscal measures before the autumn statement, but he has chosen not to do that; he is leaving everything to the autumn statement. The interventions on monetary policy contrast with the actions on fiscal policy, on which we have no further thoughts from the UK Government about what it proposes to do.

In the spirit of being fair to the UK Government, I note that it is waiting for the economic data to drive its decisions. It is fair to say that the Scottish Government needs to hold back to see the implications of those decisions.

Alistair Brown might want to add something on the chancellor's interventions.

Alistair Brown: The points that the cabinet secretary made are right. As he said, the Bank of England quickly made monetary policy interventions, but the chancellor is waiting for data on which the OBR can base its trend forecasts for next year.

Derek Mackay: It is pertinent to say that I have engaged further with the chancellor on other matters and that I will continue to pursue the UK

Government on the timetable and the substance, because I know how important that is to the committee and to the Government.

The Convener: We have explored the background well enough. A number of members have questions about timing issues.

Alex Johnstone (North East Scotland) (Con): I suppose that the committee and the Government are both in an almost impossible situation. The committee needs to scrutinise the budget effectively. We would like the process to run to a much earlier timescale, but it is increasingly difficult to see how that can be achieved.

You have offered ways of bringing forward elements so that some of the committee's work can be done earlier. Will you flesh out the possibilities and perhaps describe what they would look like from the committee's point of view? How would that compare with the normal scrutiny process?

Derek Mackay: The questions are fair. I understand that subject committees might do pre-budget scrutiny in any event; it is for committees to consider how they would like to probe current practice and priorities.

I appreciate the Finance Committee's difficulty in wanting to scrutinise the budget, but I do not want to publish a budget that I know is inaccurate and which would waste the time of the committee and the Parliament. What could be produced to assist members could include a statement on new portfolio budgets in this financial year. That is important because the change in portfolios under the new Government has meant a realignment of budgets in the current year. It would be useful for the committee to consider that information, which has not had that degree of parliamentary exposure. The current budgets and priorities in each portfolio, following the election of the new Government, would be of interest.

We could provide information that shows performance against national outcomes and the contribution that expenditure programmes make, which has interested the committee in the past. We could provide an update on work on the operation of the fiscal framework, along the lines that may interest the committee. If the committee wishes, there could be further work on updated economic and financial modelling, which could provide analysis that demonstrates the impact that changes in economic performance could have on the Scottish budget.

From the Government's perspective, I suggest that those substantial items could interest the committee.

Alex Johnstone: I am fully aware that you are always willing to speculate, but I understand why

you might not be willing to speculate—certainly publicly—on elements of the budget before the information is available. That said, I got the impression from your opening statement—you can correct me if I am wrong—that you might be willing to discuss some elements of the budget with the committee in private in advance of when you will be willing to speak publicly.

Derek Mackay: The budget process has to be transparent, so we will go through that process at a point when I am ready to publish a draft budget. However, I am trying to share as much as I can of what we know of the modelling and information that the committee will find of use.

Of course, there is a separate dialogue that goes on, because political parties are perfectly entitled to bring me their demands, interests and priorities around the budget process. This will be my first year of undertaking that dialogue, and it will be at a time when we have interesting parliamentary arithmetic. My door is open for us to have that conversation about what political parties are interested in.

On the budget process, I am happy for officials to work with the committee's clerks to enable the production of something that can be scrutinised, but that would be something that is short of a budget, because I do not want to produce a budget that I know will be wrong. That would be a waste of everyone's energy.

Alex Johnstone: As you are fully aware, the timescale that you are adopting and the timescale for the committee's scrutiny are such that, if we go ahead on that basis, the system is almost dysfunctional. Do you think that you can take us far enough forward? At what point will you be able to give us some information that will allow us to properly scrutinise the budget? Will that happen before it is too late?

Derek Mackay: Let me be clear to Mr Johnstone. I will not have a draft budget to be scrutinised until I have the data that is required from the chancellor's autumn statement. We are trying to do this by agreement, but I cannot produce a budget to be scrutinised without having the relevant knowledge about what the chancellor is about to do from the autumn statement. We can go into all the detailed reasons for that. Short of that, however, I think that we can work together to come up with effective scrutiny of the issues that we are facing.

The Convener: A number of members have questions about timing, and others have indicated since the committee's earlier discussion that they want to come in. I will try to get the right balance.

James Kelly (Glasgow) (Lab): As I understand it, cabinet secretary—I am sure that you will correct me if I misrepresent you in any way—you

have a genuine concern about publishing a budget to the normal timetable because of the variables in the current political process. You are nervous about publishing an early budget and would prefer to wait until after the autumn statement, when you will have more information and, from your point of view, the budget will be more accurate.

Do you accept that there are iterations in any budget process? Whether you publish a draft budget in October or December, the figures can ultimately change until Parliament agrees to the final budget.

Derek Mackay: I accept that there have been changes in previous years, but they have largely been consequential increases—that has been the trend arising from chancellors' autumn statements. I do not have a sense that that is about to happen in the current chancellor's autumn statement, given all the economic forecasts and, for example, the impact that Brexit will have on the economy and therefore on tax receipts and public expenditure. There is consensus about the economic impact and what that will lead to. We are in uncharted territory.

My starting position was to pick up from where the previous Finance Committee left off. It said in its legacy paper that we had to address the fact that the Scottish Parliament's powers have changed since its inception. We are no longer just a spending Parliament; we are now a tax and spending Parliament, but we have not fully changed the working agreement or processes to reflect that. That was my starting position.

Of course, we want to make tax decisions that do not encourage the wrong cultural behaviours in how people pay their tax, such as forestalling. That concern has to be addressed.

I suppose that the bigger issue is the unknowns of what the chancellor is about to do, given what has happened with Brexit. There is no precedent for that. It has created such financial uncertainty that it has changed circumstances completely.

On top of that, the previous committee's legacy paper mentioned the need to change our processes and look at timescales so that decisions can be made closer to forecasts. That approach is sensible. We are now a Parliament that taxes as well as spends. With the new powers that are coming our way, we will depend on forecasts.

The fact that we must make all those changes and deal with the uncertainty of Brexit has led me to conclude that publishing an inaccurate budget would be the wrong thing to do. To start from a position of knowing that the situation is about to change and to have intense scrutiny of a budget that would be subject to so much change, because of the variables involved, would be the wrong approach.

James Kelly: What would you regard as a material change in the budget? If you produced a draft budget in October and you had to update it to reflect changes that were made in the autumn statement in late November, what would you regard as a material change that would substantially undermine your budget process in the way that you have explained?

Derek Mackay: There could be sensitivities about potential income tax changes, because of the way in which our income tax policy relates to UK income tax policy, which could be subject to change. Spending commitments by the UK Government in the spending review could be subject to change. The economic forecasts could be subject to change. We do not know what the impact will be on the block grant adjustment. Those are unknowns, so I do not know what scale of adjustment will be required.

A great many people say that the scale of the uncertainty is unknown. Even the leader of the Scottish Conservative Party, Ruth Davidson—she might not be close to Mr Kelly—said as recently as yesterday:

“we know that there will be an impact on the economy because of the EU referendum. We do not know the scale of that but, as the Prime Minister said at the weekend, we should prepare for difficult times ahead.”—[*Official Report*, 6 September 2016; c 22.]

I do not know what scale of financial adjustment the chancellor might have in mind, but the consensus is that there will be a negative impact on the economy, which will inevitably feed through to fiscal decisions. It is a matter of good governance and a sound approach on the part of the committee to want decisions to be based on the best and most recent estimates.

James Kelly: You are running a budget of about £30 billion. What figure would you regard as a material change that would undermine your budgeting process? Would it be £100 million, £500 million, £1 billion or £1.5 billion?

Derek Mackay: Even with the scale of the Government's budget, to change a budget line to the tune of hundreds of millions of pounds would be material. A change that involved such a significant sum would require readjustment of any budget proposition. However, given all the variables that are in play, we do not know what the scale of the change will look like.

James Kelly: You are saying that a change of £100 million would be material in the circumstances. Changes of that scale have been made in previous budget processes.

Derek Mackay: I am saying that, given the variable factors that are at play, such as the income tax position, the spending review position and our new tax powers—we should bear it in

mind that, with our devolved taxes, we are in a far more complex position because of the levers that are available to us and the spending commitments that we might choose to make—a change of hundreds of millions of pounds would be of material significance.

James Kelly: Do you accept that the measure of materiality of 1 per cent in accountancy terms, which some accountants use, is reasonable?

Derek Mackay: Do you really believe that embarking on a process in the knowledge that the budget is wrong and that the starting position is out by hundreds of millions of pounds is a good approach?

James Kelly: I put it to you that it is necessary to look at the measure of materiality, and the measure that I would use is that a change of greater than 1 per cent of the budget would be material.

Moving on—

The Convener: Can you make this your last question, because we need to move on to other members?

James Kelly: Sure—I will be brief.

Cabinet secretary, you said that you used to be a member of the Finance Committee, when I know that you were very active. How important do you think that the role of subject committees is? Given that the timetable will be curtailed, how will they be able to actively engage with the budget in a shortened process?

10:30

Derek Mackay: Mr Kelly is right to say that I value parliamentary scrutiny. It makes for a better process, which is why the starting position should be to produce something that is well-informed and accurate, so that what we are scrutinising is robust. In the exceptional circumstances, I am happy to meet committees more often and to make officials available. I want this to be a period of intense but also robust and accurate scrutiny. If we have to do things differently, I am certainly up for that.

Murdo Fraser (Mid Scotland and Fife) (Con): On the question of materiality that Mr Kelly pursued, will you remind us what the Scottish Government's underspend was in the last financial year?

Derek Mackay: It was about £150 million—that was what we carried forward in different categories.

Murdo Fraser: That is in the same ballpark as the figures that were carried forward in previous years.

Derek Mackay: Yes. The difference is about 0.5 per cent.

Murdo Fraser: So you are used to carrying forward perhaps 1 per cent of the overall budget from the previous year.

Derek Mackay: Yes, although the amount has been less than that.

Patrick Harvie (Glasgow) (Green): In the letter that you sent the committee on 23 June, you set out the range of factors that give rise to uncertainty and which lead you to the view that late publication of the budget would be desirable. Is it fair to say that, in the days after 23 June, the prospect of policy change by the UK Government has become a bigger factor but that, on reflection, the other factors that led to some prospect of uncertainty have receded and are likely to have a more marginal impact on the Scottish budget?

Derek Mackay: That is fair commentary. As I said, I am embarking on the journey that the previous committee suggested that we embark on, which means looking again at the working agreement and the practices for scrutinising and determining the budget.

Patrick Harvie: That is for the longer term, but what about this year?

Derek Mackay: Some of the new powers are coming, and it is worth exploring the new processes that will relate to them. However, as you suggest, the game changer for the levels of uncertainty has been the vote on Brexit and the economic impact of that.

Patrick Harvie: On the range of forms of uncertainty, you wrote in your letter:

"I recognise that there may be a range of views on the budget timetable and am very open to discussing them."

You went on to consider the advantages of more parliamentary scrutiny versus the disadvantage of uncertainty.

UK Government policy change will always be a possibility in the run-up to an autumn budget statement. Should Parliament be willing to accept the Scottish Government's view that that possibility is always a reason for late publication of budgets and that therefore subject committees should have in effect only the last week of term before Christmas and the first week of term after Christmas as the only opportunities to take evidence on the budget?

Derek Mackay: That is not what I am saying. I am saying that, through the working group, which is a welcome development, we should consider what works for everyone in dealing with the new powers that we have, all the forecasts, all the drivers and the proper need for scrutiny. We need to address all those factors in the longer term.

This year, we face an unprecedented economic challenge because of the Brexit vote. From all the statements, some of which I have evidenced, I am convinced that there will be a major financial adjustment that will have an inevitable knock-on consequence for the Scottish Government's budget and that, in the circumstances this year, we should have a timescale that follows the chancellor's autumn statement. I agree that, in the longer term, we need to address all the issues that exist.

Patrick Harvie: We all accept that a knock-on effect on the Scottish Government's budget is inevitable. However, the uncertainty that arises from late publication means that there will also be an inevitable knock-on effect on all public bodies in Scotland that receive funding from the Scottish Government's budget.

In the absence of a draft budget, surely those bodies are more likely to be drawn to worst-case scenario planning than they would be if there was a budget that set out a range of possibilities. The bare minimum that is needed is detailed scenario planning in the public domain before the publication of the draft budget and before subject committees are asked to undertake what we are pleased to call pre-budget scrutiny, which is not budget scrutiny.

Detailed scenario planning would allow subject committees and the Finance Committee to consider what the Government's priorities are in terms of mirroring UK tax rates and meeting yesterday's commitments to £500 million for energy efficiency, £500 million for the growth scheme and anything from other infrastructure investments to the baby box. To conduct meaningful scrutiny, all subject committees need to understand what the impact will be of various scenarios that the Government might face over the coming months and what its reaction to them will be. Can you put such scenario planning into the public domain?

The Convener: Could Patrick Harvie's suggestion about scenario planning be brought into the discussion between your officials and the clerks about the additional material that could be produced to help the committee to undertake appropriate scrutiny with as much transparency as can be achieved?

Derek Mackay: I recognise the issues that committee members are wrestling with and I will try to produce as much information as possible to help the process along. People are watching Scotland's use of its new powers, our fiscal responsibility and the projections that we make, so I want to do things that support our message and our economic credibility. The scenario planning would have to be responsible and I would want it to reflect what actions taken by the UK

Government would mean for our budget and our budget process.

I will make some other comments on Mr Harvie's suggestion. I entirely appreciate the impact on the agencies, organisations and partners that are financially supported by the Scottish Government and are waiting for the figures, but I return to my point that I want the figures to reflect our budget position accurately. To return to Mr Kelly's point about material change, taking out a few hundred million pounds from the Government's budget is not as simple as people would think—that would be quite significant. Sensitive issues and a sensitive approach are in play.

The First Minister's announcement yesterday of the programme for government was our statement of intent on the delivery of our manifesto. Mr Harvie made an interesting point about wanting to know what we would do to mirror the UK's tax position.

Patrick Harvie: I am not suggesting that you should.

Derek Mackay: Exactly—therein lies a key point: how can a tax position be mirrored if we do not know what it is? I suspect that there will be change in the chancellor's autumn statement. You make a fair point because, given the income tax powers and the block grant adjustment, the decisions that we take on income tax will not just raise revenue; they could lose revenue relative to what the UK Government does. That is entirely interlinked with what the UK Government chooses to do.

In the spirit of the question, I am willing to produce as much scenario planning information as I can. However, the scenario planning will have to be responsible to avoid opening up the difficulties that producing inaccurate information from an inaccurate budget would create.

Patrick Harvie: I suggest that it would assist not just the Finance Committee but all our colleagues on subject committees if the cabinet secretary said in the near future what the timescale will be for publishing the scenario planning information. That would allow committees to build scrutiny into their work plans.

The Convener: That is a fair point, which the cabinet secretary has heard.

Ivan McKee (Glasgow Provan) (SNP): I have been thinking about the issue for the past few weeks and trying to understand it—maybe you can help me. I will relate it to my experience in business, so forgive me if I take a wee detour.

In the business environment, we have to set budgets and deal with uncertainty. That is the nature of the beast; things happen and we get on

with the process. However, we also get into situations in which we know that something that is substantial enough to mean that we will have to do something differently is coming along—a known unknown, if we can call it that. I have been in many such situations and I have often seen companies push back their year ends to enable them to understand a situation—whether it is a merger, an acquisition or a major change in the customer environment.

Which side of the line is the current situation on? Is it business as usual or is it a known unknown of such magnitude that, to mix metaphors, although we can sail forward and deal with choppy water, if we know that there is an iceberg, it does not make sense to carry on as usual until we can see the scope and scale a bit more clearly?

I will make some comments that follow on from comments that have been made about committees. I sit on the Health and Sport Committee, which I understand covers the portfolio that is the biggest spender. To be frank, the idea of spending two or three meetings over the autumn engaging in what we might call fantasy budgets until we get real numbers does not inspire me; I would rather wait to see what we will talk about than waste time going round the houses.

Will you clarify the scope and scale of the matter? Based on the evidence, which of the scenarios are we looking at?

Derek Mackay: Mr McKee raises a valid point, but I have to say that, if I knew how big the uncertainty was, it would not be uncertain, so it is difficult to give an answer.

Ivan McKee: What about the nature of the uncertainty rather than the scale?

Derek Mackay: There are so many variables and there is so much uncertainty in play that it is hard to pin down the scale. Even the chancellor is unwilling to make decisions before he has the OBR figures. If he is unwilling to make decisions on an autumn statement, how can I be expected to produce an entire budget without the starting position from him on the change that is expected because of the Brexit vote and the economic turbulence? That is notwithstanding the fact, which we should not lose sight of, that the committee's predecessor said that we had to address forecasting, as we are in a different kind of Parliament from the one that was created when the financial issues advisory group principles were established.

Ash Denham (Edinburgh East) (SNP): Good morning. I will explore what is happening in other parts of the United Kingdom. You have touched on this a little bit already. The Northern Ireland Executive had been planning to produce a

multiyear budget, but in the past couple of days it has changed that position and has decided to do a one-year budget. The Northern Ireland Minister of Finance has been quoted as saying:

“The budget cannot be put together until Chancellor Philip Hammond’s Autumn Statement”

because of

“its likely knock-on consequences for the Stormont block grant.”

I think that I am right in saying that the Welsh have also had to make adjustments to their budget, so a budget delay would not be unique to Scotland.

Derek Mackay: That is absolutely correct. The difference between Scotland and the other devolved Administrations is that we have more powers and we have more variables because of the block grant adjustment in the fiscal framework agreement. Therefore, it could be argued that we have even more uncertainty than the other devolved Administrations.

You are right to say that the Northern Ireland Executive, with whose Minister of Finance I have engaged, will not, for sensible reasons, proceed with a pre-autumn statement. Wales may choose a different course—it has different issues in play. The Welsh Government might want to pursue a budget, have the Tory Government reopen it and then have someone to point to if it has to do that. However, Northern Ireland is not proceeding for reasons that are similar to ours, although we also have extra variables. That shows the consensus on not making any rash decisions before the autumn statement.

Adam Tomkins (Glasgow) (Con): Good morning, cabinet secretary. We are talking about a trade-off between two different values, both of which are in the public interest. It is not the first time that we have talked about it since the election. The first of those is the value of accurate budget forecasts and draft budgets—we have heard you say quite a lot about the importance of accuracy.

However, the second value, which I know that you believe in as passionately as I do, is the public good in effective and robust parliamentary scrutiny. As far as I understand it—correct me if I am wrong—you are asking the committee to agree to privilege the accuracy of draft budgets and forecasts over the public good of effective and robust parliamentary scrutiny.

10:45

I just want to understand a little bit more about exactly what kind of cut into that effective parliamentary scrutiny you are asking for. You are saying that you will not produce a draft budget until after the autumn statement. I asked you in

June how long it would take you to produce a draft budget after the autumn statement and the answer from you and your officials was that it would take at least three weeks. If the autumn statement is at the end of November or the beginning of December, as we expect, and given the Christmas recess, we would therefore not expect to see a draft budget until the new year.

I also asked you in June whether we could elongate the other end of the process so that we would have more time going into the spring to consider the draft budget. The answer was that we could not shift the process in that way, for various reasons.

As I understand it, you are asking us to consider the entirety of the draft budget and the budget—from the initial publication of the draft to the passing of the budget bill—in a matter of about seven or eight weeks, from early January to late February. Is that right, cabinet secretary?

Derek Mackay: That is helpful. It is not just Mr Tomkins who has been thinking about the budget process in the past few weeks and months; it has, obviously, been preying on all our minds. The one man who could give us much more certainty in all of this is the Chancellor of the Exchequer. If the chancellor laid out that Scotland's budget would be untouched and that there would be no change to what the UK Government had said it would do on income tax, we would have far more clarity. The uncertainty about the material impact on Scotland's budget could be resolved by the chancellor at the stroke of a pen.

That said, I have a different view on what effective scrutiny looks like—I think that a credible budget is far more worth scrutinising than an inaccurate one. That is why I think that effective scrutiny, as Mr Tomkins describes it, would involve a credible and accurate budget that is based on the most recent forecasting decisions from the UK Government following the autumn statement. In terms of options within that, I support probity and proper parliamentary scrutiny, so I think that Parliament and its committees should work constructively with us to think differently about what happens in that period of draft publication right through the processes of the Parliament. Could committees meet more frequently? Could they have additional sittings? Could they call ministers? There are different things that we could do if that was the will of Parliament. It is not just about the length of time but about what effective scrutiny looks like during that publication period.

I explored the possibility of an extension at the other side of the budget process, but it would have been incredibly difficult because of the stakeholders and the partners that are reliant on the budget and because of the legislative process within Parliament—royal assent and so on. Those

are serious issues and they explain why we would not want to extend the other end of the process.

We should be radical in considering what we could look at beyond publication of a draft budget. I committed to producing a budget as quickly as possible after the chancellor's autumn statement. The timing for his statement is not in my gift but we would work incredibly hard to produce a draft budget in those three weeks after the autumn statement. We also need to rely on some of the work from the Scottish Fiscal Commission. It is really important to have that as part of the process. Getting that done in three weeks would be challenging, but that is what I would try to do to ensure that the draft budget is published before Christmas. Merry Christmas, everyone! I would commit to that.

However, to go back to Northern Ireland, as far as I understand it, the Government there is not proposing to produce a budget before Christmas—it will be in the new year. I am saying that we will produce a budget as swiftly as we possibly can and I have set a challenging target of doing that three weeks after the chancellor's autumn statement.

Adam Tomkins: It is dangerous to read across from the Northern Ireland Assembly's constitutional arrangements, where there is no Government and Opposition, to the arrangements that we have here in the Scottish Parliament, where there is a minority Government and an Opposition. One can overstretch that point.

The committee's independent adviser, working with the Scottish Parliament information centre, has advised us that the changes to the Scottish budget that are likely to have to be made after the autumn statement are—these are the words that have been used in the documentation, which I think is on the committee's website—"relatively minor", "marginal" and "limited". That is exactly why James Kelly and others have been asking about what changes we are talking about. The committee's advice is that the changes that you would need to make after the autumn statement are "relatively minor", "marginal" and "limited", but you are asking for a massive curtailment of the time that will be available for Parliament to scrutinise your draft budget and the subsequent final budget. If you are thinking about trade-offs, and not only the likelihood of the risk of inaccuracy but the magnitude of the harm that would be done to Scottish democracy and to this Parliament by our not being able to scrutinise your budget proposals effectively, you are asking for something that is perhaps going a little further than is necessary.

Derek Mackay: I disagree on two points. First, I disagree that any adjustments would be minor or easy. I do not know whether you—or anyone—has greater insight into what the chancellor is about to

do than the chancellor himself. Therefore, it is very difficult for any spectator to say that what I will do would be minor or easy. If the chancellor cannot produce his autumn statement without the OBR forecast, how can I be expected to produce an entire Scottish budget? The Scottish budget is very complex—it is even more complex with the new powers and the interplay with the UK Government decisions—as I am sure all the committee's members understand.

I take a different view on effective scrutiny. I think that scrutiny is best served by having the best and most up-to-date position and by knowing far more than we know before the autumn statement. What the committee will be asked to study then will be a more accurate and credible document and proposition, from which we will negotiate using the parliamentary arithmetic and which will be scrutinised. I am happy, in the circumstances, for the budget to be even more intensively scrutinised than has been the case in the past. I say again that it would be wrong to publish the draft budget before the autumn statement, but I suppose that we just have a difference of opinion on that. I do not think that it is undermining Parliament to want to present the best that I have.

Adam Tomkins: I have one very quick final follow-up question. The Organisation for Economic Co-operation and Development has compared what various Parliaments do in budget scrutiny. It is said that the ideal seems to be that Parliaments should be enabled to scrutinise budgets and draft budgets for three to four months. That is what happens in Canada, Denmark and all sorts of other good places. To make sure that I understand this, are you asking us to agree to a timetable that is less than half that which is recognised by the OECD as best practice?

Derek Mackay: I will need to check—I am happy to do so—whether the OECD studied independent nations or devolved Administrations' arrangements. You are right that the United Kingdom Westminster Parliament does among the worst parliamentary scrutiny of the budget process—it is not something that I would want to emulate. We have to get the balance right in Scotland. Therefore, I support the working group, so that we can co-design the best possible system for the future, but we are in unprecedented circumstances for this financial year.

Neil Bibby (West Scotland) (Lab): Mr Harvie mentioned some of the financial commitments that were made yesterday in the programme for Government: £100 million in capital projects, £4 billion in infrastructure next year, a £3 billion plan for housing over this session of Parliament, £500 million for energy efficiency over the next three years, £90 million over the next year for

broadband, £3.5 million for new innovation hubs, the biggest ever research and development grant, a £500 million Scottish growth fund, the attainment fund, £350 million each year from the national health service to social care partnerships, and protecting police revenue budgets in real terms, with £100 million extra over the next parliamentary session. I presume that all those commitments will be in your budget, because you would be in trouble if they were not. Given when you will produce the draft budget, can the committee expect any further information on spending commitments? Can we expect any further spending announcements before the budget?

Derek Mackay: That is a very fair question and Mr Bibby is right to ask it. I thank him for outlining some of the highlights from yesterday's programme for government. If even Labour Party members are proud to list the Government's proposed direction of travel, then we are doing not too bad, as we say in the west of Scotland.

If we take the significant issue of the Scottish growth scheme as an example, I immediately engaged with the committee on that by writing to the convener so that the detail of how we take that forward can be discussed. The Government is entitled to—indeed, is expected to—outline in its programme for government how we will deliver our manifesto commitments, and that is what we have done. Of course, the programme for government is interlinked with the budget that I will propose. Naturally, as I mentioned earlier—members have a role to play in this as well—we will have to get a budget passed in order for the Government to be able to deliver its manifesto commitments and its programme for government, and that is a matter of parliamentary arithmetic.

I will, of course, continue to work constructively with the committee to share information on proposals and propositions on any budgetary matters that it might be interested in. I will also continue to share in Parliament information on the existing infrastructure, including the twice-yearly revisions to the budgets, and on the various financial and fiscal orders that I will have to develop and new orders that will be required as part of the new powers from the Scotland Act 2016.

Neil Bibby: My point was that you could give more detail than you have so far. I want to follow up on what Ivan McKee asked about with regard to the health budget, about not wanting to engage in fantasy budgets and about health being the largest spending commitment. You gave a manifesto commitment to protect the NHS budget, so surely that is going to be maintained in your budget. You do not need to give us all the details, but if the biggest spending commitment in the budget is health and you have given a

commitment to protect that spending, surely we could see a lot more detail on what the NHS budget is going to be doing over the next year.

Derek Mackay: Mr Bibby will be aware of the detail around the NHS commitment and, indeed, all the commitments in the manifesto, which I am sure he has read from cover to cover. However, with regard to the NHS, he is right that there was agreement about real-terms protection of the budget, passing on consequential and having an overall above-inflation increase of £500 million by the end of this session of Parliament. That is the kind of thing that we have committed to in the manifesto and it is, in terms of budget delivery, the kind of policy that I would pursue.

Neil Bibby: If you are going to follow through on that commitment to protect the NHS budget in the next budget, there is no reason to delay scrutiny of what the NHS budget is going to look like.

Derek Mackay: I am outlining the manifesto commitment to protect the health budget that this Government intends to deliver. What I cannot present to you now, for all the reasons that we have explored this morning, is the Government's draft budget, but we still intend to deliver that manifesto commitment.

Maree Todd (Highlands and Islands) (SNP): Good morning. I am very new to the committee, so I am struggling a little bit to understand why there should be a question mark over delaying the draft budget. It seems to me very clear that there has been a hugely significant event over the summer that is likely to have a very big impact on Government finances. It also seems very clear to me that you need accurate figures in order to produce your budget and that the March figures are likely to be superseded very soon by new and more accurate figures.

I have looked at the figures for the past five years, where there was not very much variance, but I would say that we are more likely now to be in the sort of situation that we were in in 2008, when there was over the course of the summer a huge change that meant that the figures that came out in March were vastly different from those that came out in November. For example, the UK spring budget in 2008 predicted that income tax receipts would grow by 6.8 per cent, but the November figures showed that there had been a 3.5 per cent fall in income tax receipts—a 10.3 per cent change between March and November. I suspect that we are in a similar situation at the moment. Do you have any idea, minister, of the likely scale of change from the March figures this year to the November figures?

11:00

Derek Mackay: Actually, from a member who thinks that she has not grasped the issue, that characterisation was pretty accurate—it probably expressed it better than my notes, anyway.

In the past few years, there has been relative economic stability compared to the current position around Brexit and compared to the financial crash. I cannot put a range on the scale of financial adjustment that might be undertaken, but because of the range of variables, we are in the area of having to make substantial adjustments rather than just do a bit of tweaking here and there. The adjustments in recent years have largely been during a period of economic stability when Barnett consequential were on the increase—although that was in the context of real-terms reductions to the Scottish Government's budget in the period from 2010. By all accounts, that real-terms reduction is likely to continue.

Maree Todd: Am I right in understanding that the change has already been signalled? The outgoing chancellor said that there would be a punishment budget, and the current chancellor says that he is going to “reset” the economy, so we have been told that there are likely to be big changes.

Derek Mackay: It is correct that the previous chancellor warned that there would be an emergency budget and he made comments that were based on Treasury modelling and other modelling on the impact of Brexit. The new chancellor has said that he will “reset fiscal policy”, whatever that means. It could mean something substantial, but it is in his gift. He is looking at the economic forecasts and waiting to hear from the Office for Budget Responsibility before concluding his position and determining which economic and fiscal levers to pull. Thus far, his interventions where he has responsibility have simply been reactions to the Bank of England's monetary interventions rather than fiscal interventions. They are coming in the autumn statement.

The Convener: I want to raise an issue that has been exercising me since about 10 o'clock this morning, when I became the convener. You and I are both former council leaders, cabinet secretary, and I am sure that other members have been councillors or have done jobs where the public service budget mattered greatly to them. Before we began the meeting, I mentioned to others in private my concern that, if we produce and enact a budget with a level of variance of £200 million or more, the impact on other organisations in Scotland could be significant. From my experience, I know that, if we produce a budget in October, council leaders across Scotland will begin to scenario plan on that budget and will begin to build certainties into their organisations

about what they might do. Of course, that budget might change significantly. From your experience, how turbulent could that be not just for local authorities but for all the non-departmental public bodies for which the Scottish Government is responsible?

The issue is not just about the committee and the Government; it is about how wider Scotland deals with the budget.

Derek Mackay: I remember being a council leader and having to revisit budgets mid-year as a consequence of the downturn. Naturally, that was a difficult process. Councils want the greatest possible certainty as they embark on the budget process. Many councils will be working on that and modelling scenarios at the moment. In engagements that I have had with the Convention of Scottish Local Authorities and local authorities that are not members of COSLA, I have shared as much as I know about the UK spending decisions and timetabling. Councils will be modelling a range of scenarios, and they will have looked at the Scottish Government's manifesto commitments. Councils will be preparing, but I can tell you that they would far rather have a credible and accurate draft budget than one that is inaccurate.

After all, it is incredibly difficult to go back and unpick portfolio budgets and, potentially, a local government settlement. Parliament has primacy, because it will vote on the budget and either approve it or not, and it is that parliamentary arithmetic that is important. As a result, local government will have to watch very carefully what Parliament chooses to do, but in any discussions and negotiations that I have with local government, it will want a degree of accuracy and certainty that I can only give after the autumn statement.

The Convener: I know that Murdo Fraser has a question about the Scottish growth scheme, which, although not directly related to the discussion that we have just been having, is related to the budget. Do you want to deal with that now, Murdo?

Murdo Fraser: Thank you, convener. Cabinet secretary, a couple of times this morning you have mentioned the Scottish growth scheme, which was announced in yesterday's programme for government and about which you wrote to the convener in more detail yesterday. Clearly it is a substantial and significant measure in the Scottish Government's programme to promote the economy; indeed, it is probably the most significant economic measure that has been taken, amounting as it does to half a billion pounds of loan guarantees. It is also on the front pages of a number of this morning's newspapers, so the Scottish Government is clearly promoting it as a

key part of its programme to support the Scottish economy.

You say in your letter that the scheme will require Treasury support, because it will require "additional AME budget cover". What discussions have you had with the Treasury on whether that support is forthcoming?

Derek Mackay: I had no conversations with the Treasury on the scheme specifically before bringing it to Parliament. We gave Parliament the courtesy of knowing about it first, but I wrote to the Chief Secretary to the Treasury at the same time that I wrote to the convener. I hope that the UK Treasury will be co-operative about it, because there is no financial call on the UK Government. As Murdo Fraser has pointed out, if it is delivered it will be of great assistance to the business community in Scotland. It will be managed by the Scottish Government, and we will engage with businesses as well as the committee on the scheme's operation.

Murdo Fraser: With respect, though, is this a responsible way to proceed? The scheme was clearly the centrepiece of the programme for government with regard to economic support, and it was announced yesterday with great fanfare. Now it appears that you have had no discussions with the Treasury on whether the scheme will have its support. Surely you—or at least your officials—should have had a conversation in advance with the Treasury to try to understand whether support would be forthcoming before you announced the scheme with such fanfare.

Derek Mackay: I am sure that the UK Government—with its alleged support for the business community—will want to support the Scottish Government in delivering such a scheme—

Murdo Fraser: Should you not have asked it first?

Derek Mackay: Should we not have come to Parliament and engaged with Scottish parliamentarians on such matters? Murdo Fraser is well aware that the UK Government often makes decisions that impact on Scotland, our budget and our businesses without engaging with the Scottish Government first. I could list examples—the apprenticeship levy, say, or other levies—where that has been the case. The Government of Scotland can pursue its policy objectives.

I welcome the fact that Murdo Fraser believes the scheme to be the centrepiece of the programme for government. That is good commentary, because it is a significant intervention to support our economy at this time. It shows innovative thinking on the part of the Government around how we will use the strength

of our balance sheet to support Scotland's economy, and I ask all committee members in all political parties to support us in pursuing and progressing it. I see no good reason why the UK Government will not want to proceed with the scheme and support us in it; in fact, I would not be surprised if it copied it.

Murdo Fraser: I have one more question, if I may, convener. Cabinet secretary, you have just spent the past hour telling us that your hands are tied with regard to publishing a budget and making any financial decisions in relation to the Scottish budget because you are waiting for information from the UK Treasury. You now tell us that you can go ahead and gleefully publish an ambitious scheme that might or might not be of great benefit to the economy without having any conversations at all with the Treasury. Do you not see the clear contradiction between what you say in your letter and what you have been telling us for the past hour?

Derek Mackay: If Murdo Fraser wants to appreciate and understand the detail of how the scheme will actually work—

Murdo Fraser: With respect, cabinet secretary, that was not my question.

Derek Mackay: Well, it was, actually. If you want to understand the detail of how it will work, I should point out that it is not the same as setting out a budget proposition, given how it will work within annually managed expenditure limits. The context is different.

I suspect that the Conservatives will back this particular measure, and if the UK Treasury has any sense, it will support it, too.

Murdo Fraser: Should you not have asked it first?

Derek Mackay: Do you not respect Parliament, Mr Fraser?

The Convener: Right—we have been here before. Patrick Harvie has a question.

Patrick Harvie: I do not have the First Minister's statement in front of me at the moment but, if I recall correctly, before and after the scheme was announced, the First Minister was using the language of inclusive growth, fair work and decent terms and conditions for people. Those were the sorts of issues that were coming up. The Scottish Government has tried a range of ways to encourage such things, but discussions at the Economy, Energy and Tourism Committee in the previous session showed a degree of reluctance to build in real incentives. How will the scheme promote, for example, the real living wage, low wage ratios, decent terms and conditions and employee ownership of businesses? How will it be used to help build a fair and inclusive economy

instead of some any-kind-of-business-goes approach being taken?

Derek Mackay: That is a helpful point, and it is partly why I have written to the committee. It is primarily because of the working agreement, which is how the guarantee schemes with their £1 million limit operate at the moment. We need to explore how our scheme would work with regard to a revised working agreement, and I am more than happy to engage on those issues as we construct the scheme in dialogue with business, with this committee and with Treasury support.

We can consider those issues, and Mr Harvie is absolutely right to say that we have taken forward many of the principles and practices that we encourage, such as the living wage. I am happy to have that dialogue as we construct the fine detail of the scheme.

The Convener: As no one else has indicated that they wish to contribute, I thank the cabinet secretary and his officials for appearing before the committee. Later in the meeting, the committee will consider the issues that have been raised during the evidence session, including the timetable for scrutiny of the 2017-18 budget and the budget review group. The clerks will be in touch with officials on those matters, particularly the issue that the cabinet secretary raised at the beginning of the meeting and which others explored about how we get additional material that is as transparent and accountable as possible as well as the scenario planning issue that Patrick Harvie, in particular, highlighted. I hope that such discussions will prove to be fruitful.

In the meantime, cabinet secretary, thank you very much. I now move the meeting into private session.

11:12

Meeting continued in private until 11:45.

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