



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Finance and Constitution Committee

**Wednesday 10 March 2021**

**Session 5**



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**Wednesday 10 March 2021**

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**FINANCE AND CONSTITUTION COMMITTEE**

**9<sup>th</sup> Meeting 2021, Session 5**

**CONVENER**

\*Bruce Crawford (Stirling) (SNP)

**DEPUTY CONVENER**

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

**COMMITTEE MEMBERS**

\*Dr Alasdair Allan (Na h-Eileanan an Iar) (SNP)  
\*Tom Arthur (Renfrewshire South) (SNP)  
Jackie Baillie (Dumbarton) (Lab)  
\*Alexander Burnett (Aberdeenshire West) (Con)  
\*Patrick Harvie (Glasgow) (Green)  
\*Dean Lockhart (Mid Scotland and Fife) (Con)  
\*Fulton MacGregor (Coatbridge and Chryston) (SNP)  
\*John Mason (Glasgow Shettleston) (SNP)  
Anas Sarwar (Glasgow) (Lab)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Niall Caldwell (Scottish Government)  
Ewan Cameron-Nielsen (Scottish Government)  
Kate Forbes (Cabinet Secretary for Finance)  
Scott Mackay (Scottish Government)  
Ivan McKee (Minister for Trade, Innovation and Public Finance)

**CLERK TO THE COMMITTEE**

James Johnston

**LOCATION**

Virtual Meeting



## Scottish Parliament

### Finance and Constitution Committee

*Wednesday 10 March 2021*

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

### Decision on Taking Business in Private

**The Convener (Bruce Crawford):** Good morning, and welcome to the ninth meeting in 2021 of the Finance and Constitution Committee. We have apologies from Jackie Baillie and Anas Sarwar, and James Kelly is attending as a substitute.

Agenda item 1 is a decision on whether to take item 6, on the proposed amendments to the written agreement, in private. If any member disagrees with that proposal, they should type N in the chat box.

As no member disagrees, we agree to take that item in private.

## Subordinate Legislation

### Budget (Scotland) Act 2020 Amendment Regulations 2021 [Draft]

10:00

**The Convener:** Item 2 is an evidence session on the draft Budget (Scotland) Act 2020 Amendment Regulations 2021. I welcome Kate Forbes, the Cabinet Secretary for Finance, and her two supporting officials from the Scottish Government: Scott Mackay, head of finance and co-ordination; and Niall Caldwell, corporate treasurer. I invite Kate Forbes to make some opening remarks.

**The Cabinet Secretary for Finance (Kate Forbes):** Good morning. I am delighted to join the Finance and Constitution Committee for the third budget event in as many days—time well spent.

The spring budget revision provides the final opportunity to formally amend the Scottish budget for this year, rather than to have discussions about next year. This year's spring budget revision deals with five different types of amendments to the budget and, although this will mean that my opening remarks are perhaps longer than I would have liked, I want to go into the issues in detail.

The first amendment is allocation of the remaining Covid-19 consequential, along with some other funding changes. Secondly, there is a reprioritisation of existing budgets, mainly arising from emerging underspends, which are redistributed to meet pressures arising elsewhere. Thirdly, there are technical adjustments that have no impact on spending power. That is followed by some Whitehall transfers and, finally, some budget-neutral transfers of resources between portfolio budgets.

The supporting document to the spring budget revision and the brief guide that has been prepared by my officials provides background on the net changes. That includes a reconciliation of the cumulative effect of the three budget revisions to date this year and a breakdown of Covid-19 consequential and other sources of funding across the year.

The first set of changes increased the budget by £3,263.5 million and comprises the majority of the Covid-19 funding, which has been allocated over a number of lines, as detailed in the brief guide.

The second set of changes comprises budget underspends and savings, which are being redeployed to support the Covid-19 response. Those adjustments amount to £745.4 million.

The third set of changes comprises a number of large technical adjustments to the budget. The

technical adjustments are mainly non-cash and, therefore, budget neutral, and have a net negative impact of £679.1 million on the overall aggregate position. It is necessary to reflect those adjustments to ensure that the budget is consistent with the accounting requirements and with the final outturn that will be reported in our annual accounts.

With regard to Whitehall transfers and allocations from the Treasury, there is a net positive impact on the budget, from a number of transfers, of £18.2 million.

The final part of the budget revision concerns the transfer of funds within and between portfolios to better align the budgets with profiled spends.

In terms of the cumulative position, taken together, the three budget revisions have provided more than £9.8 billion of Covid-19 and other funding changes to this year's Scottish budget. That has been funded by £8.6 billion of Covid-19 consequentials and £1.9 billion of reprioritisation of existing expenditure, with £89 million coming from other sources of funding.

Following this budget revision, total Covid-19 funding for health, which includes wider health initiatives, has reached £3.1 billion, with total support for business in this financial year of in excess of £3.2 billion. I think that that contrast is quite stark in terms of the spend on health and the spend on business.

As we approach the financial year end, we will continue, in line with our normal practice, to monitor forecast outturn against budget and utilise any emerging underspends to ensure that we make optimum use of the resources available this year. That is what we have been doing throughout this year and I am sure that I will touch on that in some of my answers, particularly on business support. We will also continue to manage the necessary carry forward to meet additional spending commitments reflected in the budget agreement reached for next year.

In line with the budget process review group's recommendations, my officials have included in the brief guide that was sent to the committee an indication of the forecast outturn position. Provisional outturn figures will be announced in early June.

**The Convener:** Thank you, cabinet secretary. We will go straight to questions from Murdo Fraser.

**Murdo Fraser (Mid Scotland and Fife) (Con):** I have a couple of questions about the reprioritisations in the budget, to which you just referred. As far as we can see, the total sum reprioritised is £745 million, which is a pretty chunky part of the budget for the current year—I

think that we all appreciate that there was a need for some of that because of Covid pressures.

Will you break that figure down a bit and say how much of it is capital and how much is revenue?

**Kate Forbes:** The majority of that £745 million of reprioritisation amounts to capital and financial transaction underspend, which has been redeployed to support the economic recovery. In all those cases, funds have been redeployed to service providers to best support the Covid-19 response.

Previously in committee, whether we were talking about next year's budget or this year's budget, colleagues have asked about where funding that was allocated to, for example, the Scottish National Investment Bank, has gone. I will break that down: £93 million of financial transactions assigned to the SNIB has been redeployed in this budget revision, to include for example £25 million for sport and £30 million for the third sector, and the remainder is being used for smaller transfers, with £22 million being left for deployment next year. Also, £94 million has been redeployed to support Covid-19 pressures through a reduction in Network Rail enhancement, operational and maintenance requirement capital budgets, and £75 million of national rail funding has been requested to be carried forward to future years, in line with flexibilities.

I will keep going, if that is okay. A total of £90 million of social security programme and administrative costs, which is mainly resource, has been redeployed to support the funding position, but that has had no impact on the delivery of benefit expenditure. A total of £78 million of demand-led underspend in energy grants has been redeployed. The bulk of that is capital and about £4 million of it is resource and, again, it has been redeployed to help support programmes elsewhere in the budget.

The final point, which is on business support, relates to a timing difference. In previous budget revisions, I talked about the fact that we were redeploying any emerging underspend in demand-led programmes. For example, in the initial local government grants that were allocated, we redeployed forecast underspend to fund the pivotal enterprise resilience fund and the October business support packages. We had increased the budget for business spend in previous budget revisions, on the understanding that the final figure for underspend on those initial programmes would materialise and crystallise later on. The current budget revision is therefore basically an accounting adjustment for what we have previously redeployed but had not factored into previous revisions. We decreased the previous budget revisions and, in this budget, we account

for the underspend that previously funded that. I hope that that makes sense, but I am happy to clarify it further.

**Murdo Fraser:** Thank you—that is very helpful. Where we have seen large reductions in capital spend, would you expect them to be put back into the budget for the coming year, or has that already been done—or are we still waiting to see what the impact of Covid will be on major infrastructure projects, for example?

**Kate Forbes:** I am happy to go into detail about the reserve. First, though, you will see that there is a forecast carry-forward into next year, so it is true to say that some of those budgets will materialise next year. That is the case for health, on the resource side; on the capital side, it is clear in relation to the Scottish National Investment Bank and other infrastructure projects.

It is correct that there is an assumption that where demand has been lower this year we have had to allocate that next year. Another good example of that is support for reskilling and retraining, on which we had factored into this year's budget the commitment on the young persons guarantee. However, due to an extension of the furlough scheme, an increase in unemployment was not seen when we expected it last autumn. We now anticipate that that will crystallise at the end of the furlough scheme, over the summer months, so we have increased the budgets for next year; where they have not been used this year, they have been redeployed to meet other needs.

**Murdo Fraser:** Just to clarify that a little further, perhaps we could consider an example. You mentioned the £93.5 million reduction in the rail spend, which relates to capital improvements. Is it intended that that will be reinstated in the budget for the coming year?

**Kate Forbes:** Yes. I think that I said that £75 million of the national rail funding will be carried forward to next year, in line with Treasury flexibilities.

**Murdo Fraser:** Thanks you

**The Convener:** Murdo, I am grateful for your questions.

**Dean Lockhart (Mid Scotland and Fife) (Con):** Good morning, cabinet secretary. I want to follow up on some of the issues that you have just discussed with Murdo Fraser. I think that you mentioned that the total budget of the Scottish National Investment Bank has been redeployed. I am sorry—I did not catch all that you said. Will you confirm how much of the bank's budget for the current financial year has been redeployed?

**Kate Forbes:** I will address the current financial year and then move on to next year. This year, the

Scottish National Investment Bank has redeployed a financial transactions budget of £85 million, and the building Scotland fund is redeploying £8.5 million, as per the latest forecasting information from the bank. Reduced forecast outturn is due to revised assumptions on the timing of investment drawdowns and the bank's final confirmation of its planned investment activity.

That money has not been lost. However, there are limits to what we can carry forward, so we redeploy funding in year. The majority of it has been redeployed to other areas in this budget revision. Again, I can go into detail on that. It includes £25 million for sport. You will remember the sport package that we introduced; financial transactions are what we use for loan funding—for example, to keep football and rugby afloat. There is also £30 million for the third sector and charities. Again, that represents loan funding alongside grant funding. The remainder is being utilised for smaller transfers. Finally, £22 million is left for deployment next year.

I turn to next year's budget, which the committee scrutinised as recently as Monday. You will see that, overall, £200 million-plus has been factored in for the Scottish National Investment Bank, which is based on the best available estimate of the bank's investment activity for next year.

**Dean Lockhart:** Thanks very much—that is a helpful level of detail.

Overall, does the spring budget revision recognise any new contingent liabilities in comparison with those in the original budget?

**Kate Forbes:** I ask whether any of my officials wants to come in on contingent liabilities. If not, we can follow that one up in writing.

**The Convener:** I am not seeing an R in the chat bar to indicate that any of your officials wants to jump in to provide that information.

**Kate Forbes:** I am not aware of any new contingent liabilities. If I have missed anything, I will follow up in writing.

**Dean Lockhart:** Thanks very much.

This is my final question. You mentioned the accounting adjustment in relation to the increase in the student loan charge—I think that it increased by about £217 million. That seems to arise from an impairment in the value of the student loan book, which presumably arises from the operation of international accounting standard 36, with which, I am sure, you are familiar. Will you or the officials provide a bit of background on the reasons for the impairment to the student loan book and that corresponding charge?

10:15

**Kate Forbes:** I can ask officials whether they want to come in. I think that that relates to a new approach to the way in which we account for student loans. As you mentioned, it is a technical change to do with the new means of accounting for student loans. I am pretty sure that it has featured in previous budget revisions that we have taken forward. It is a technical adjustment to recognise the accounting requirement for how we account for student loans. It does not have a material financial impact on our budget.

**Dean Lockhart:** Okay. I appreciate that it is not a cash item—the level of cash that is available in the budget does not decline. However, the notes that I saw talked about some impairment to the recoverability of the student loan book as a result of obvious things that have happened over the past year. Are there signs that the level of recoverability of the student loan book may be subject to question?

**Kate Forbes:** Again, I will put that question down as one that I will come back to you on in terms of any changes in this year's budget revision versus changes in previous years. I am not aware of there being a material or significant change this year versus the position in previous years.

The technical adjustment is relatively new; I think that the accounting changes came into effect only in recent years. I am happy to give some thought to what the changes are this year versus the position in previous years, but I am not aware of the position being more significant this year than in previous years. However, you are right that it is quite important to identify that as a non-cash item.

**James Kelly (Glasgow) (Lab):** Good morning, cabinet secretary. I want to ask about the reserve. In the Scottish Parliament information centre's paper, the reserve is forecast at £495 million. Will you give a bit of commentary on how the reserve has been built up and the thinking on using it?

**Kate Forbes:** As you know—I will say this again—as we come to the final stages of every budget, there is a significant challenge, particularly this year, in balancing the potential pressures and underspends that are forecast to emerge within a fixed budget and the requirement to have a fixed budget. This year, that is particularly challenging, given the broad range of demand-led initiatives. It is usually challenging but, this year, we have things such as business support schemes, vaccination programmes and test and protect.

I am very keen to ensure that all funds are used. Some of the pressures have moved from this year to next. Particularly on the national health service, our best available evidence is that those pressures have not reduced but are more likely to fall next

year than this year. A range of pressures and a range of savings did not materialise this year.

On the carry-forward, £231 million of resource and £200 million of FTs are anticipated in next year's budget. We have assumed that those will be carried forward.

My final point, before I ask whether officials want to add anything, is that, this year in particular, we worked with the Treasury because of the late consequentials that materialised. We had late consequentials as recently as the end of February, but even those that materialised in December are challenging to plan for because, up to that point, we had been planning on the basis that there would be no further funding. Therefore, any late consequentials have to be carried forward within the reserve limits, which have increased because of the Scotland-specific shock provisions. We are trying to carry forward as much as possible in order to meet the demand wherever it lands, which might be a few days into the next financial year rather than a few days before the end of this financial year.

Scott Mackay might have more to say on reserves, unless James Kelly wants to come back in with another question.

**James Kelly:** No, that is fine.

**Scott Mackay (Scottish Government):** As the cabinet secretary has indicated, the majority of the balance that has been signalled in the brief guide is already assumed in budgets, so we are slightly short on the basis of the latest forecast for the resource carry-forward figure. We still need some movement to come between now and the end of the year to meet the £231 million that is already factored into budget settlements for 2021-22.

**The Convener:** No one else has indicated that they want to ask a question, so we move to item 3, which is consideration of the motion on the regulations.

*Motion moved,*

That the Finance and Constitution Committee recommends that the Budget (Scotland) Act 2020 Amendment Regulations 2021 [draft] be approved.—[Kate Forbes]

*Motion agreed to.*

**The Convener:** I thank the cabinet secretary and her officials for providing us with evidence this morning.

10:21

*Meeting suspended.*



10:26

*On resuming—*

### **Scottish Landfill Tax (Standard Rate and Lower Rate) Order 2021 (SSI 2021/89)**

**The Convener:** We move on to a discussion on the Scottish Landfill Tax (Standard Rate and Lower Rate) Order 2021. We are joined by Ivan McKee, the Minister for Trade, Innovation and Public Finance; Ewan Cameron-Nielson, the head of fully devolved taxation at the directorate of tax and fiscal sustainability; and Ninian Christie, a solicitor for the Scottish Government.

I invite the minister to make some opening remarks.

**The Minister for Trade, Innovation and Public Finance (Ivan McKee):** The Scottish Landfill Tax (Standard Rate and Lower Rate) Order 2021 specifies the standard and lower rates for Scottish landfill tax, consistent with the rates set out in the Scottish budget 2021-22 published on 6 February 2020. The order sets out that the standard rate will increase from £94.15 per tonne to £96.70 per tonne. The lower rate for less-polluting inert materials will increase from £3 per tonne to £3.10 per tonne. The proposed rates will come into effect from 1 April 2021. Committee members will note that the rates match landfill tax rates in the rest of the United Kingdom for the financial year 2021-22, as was confirmed in the UK budget last week and in the draft Welsh budget from December.

The Scottish Government is continuing to act to avoid any potential for waste tourism to emerge as a result of material differences between tax rates north and south of the border. The increased tax rates provide appropriate financial incentives to support the delivery of our ambitious waste and circular economy targets, including our zero waste goal that no more than 5 per cent of total waste will go to landfill by 2025.

I am happy to take the committee's questions.

**Alexander Burnett (Aberdeenshire West) (Con):** I have a quick question on the consequences of the rise. I have asked the question many times, but I have yet to receive a satisfactory answer. I do not think that anyone disagrees with the principles of landfill tax or the direction that it is moving in, but it cannot have escaped the minister's notice that fly-tipping and general litter have reached epic levels across Scotland. Councils are clearly not sufficiently resourced to deal with it and have other priorities. For the final time in this Parliament, I ask what the minister is going to do at a national level to address the consequences of that increase.

**Ivan McKee:** The tax relates to landfill. As the member will recognise, we have a policy

commitment to reduce and eliminate landfill waste. Clearly, any unauthorised disposals are unnecessary, dangerous and completely unacceptable. We continue to work with the Scottish Environment Protection Agency and local authorities to ensure that we have effective prevention and enforcement measures in place. Revenue Scotland is, of course, responsible for the collection and administration of devolved taxes, including the landfill tax, and for the compliance strategy and activity around that. As I said, work is on-going with local authorities, SEPA and, when appropriate, the police to tackle unauthorised disposals.

10:30

**Alexander Burnett:** The minister has talked about the measures that are in place and about compliance. When he sees the amount of fly-tipping that is taking place, is he happy that those measures are working?

**Ivan McKee:** I have experienced the issue in my constituency, and I had to engage with the appropriate authorities to have the problem resolved. In that case, we were largely successful and the problem was resolved. I understand that fly-tipping is an issue that local authorities, enforcement agencies such as SEPA and the police and others deal with on an on-going basis. As I said, it is a completely unacceptable and unnecessary practice, and those agencies will continue to address it.

**John Mason (Glasgow Shettleston) (SNP):** My points are on a similar theme, but I hope that I will put them in a slightly more realistic manner. I confess that I struggle with this. On the one hand, of course, we do not want stuff going to landfill, so I totally support the increase in the rates. On the other hand, although some people would probably dump stuff whatever the landfill rates were, some people do jobs at night or whatever and then just dump stuff around constituencies.

I wonder whether we can somehow get a more joined-up approach with councils. Councils are struggling because they are trying to keep their staff separated, and Glasgow City Council has cut down the number of pick-ups. I do not have an answer; I am just asking the minister to take all the points on board and weigh them up.

**Ivan McKee:** That is being done. The direction that we are heading in, which involves working on alternatives to landfill such as reuse, recycling and other less environmentally damaging options for the disposal of waste, is having an impact. I understand that there are challenges relating to illegal activity. Such activity has always existed, and we continue to take enforcement measures against it. I think that we are taking the correct

approach to the taxation aspect, which is what we are here to talk about.

**John Mason:** I accept that we are here to focus on the tax, so I do not want to go too far off that topic.

We have a lot of individuals who want to recycle and reuse. However, where I live, people do not have cars and glass does not get picked up, so what can they do but send waste to landfill? I am not blaming anyone, but SEPA, the Government and councils must take a joined-up approach.

Thank you for your answers.

**Patrick Harvie (Glasgow) (Green):** Good morning, minister. In your opening remarks, you talked about the Scottish Government's ambition in this area, but you also said that the rates are, as the policy note states,

"consistent with those in place in the rest of the UK".

I want to ask about the decision-making process. Does the UK decide what the rates will be, with the Scottish Government having a standing policy of following in lockstep, or is there a joint decision-making process in which ministers from the various Governments come together, take advice and reach a shared decision? I can see the case for having consistency, but where does the decision making lie?

**Ivan McKee:** As with all devolved taxation, we have the authority to set rates as we see fit. I cannot speak for anyone else, but I have not been involved in any discussions with UK ministers on the issue. The Scottish Government, the Welsh Government and the UK Government—this can be a two-way street—set rates that are appropriate to the circumstances, so we are able to deviate from the rates that apply across the rest of the UK as we see fit; the issue is whether it makes sense for us to do so. This year, we have an inflation-rate increase. The rest of the UK has the same rate, which will also show an inflation-rate increase. If there were policy reasons to do something different, we could do that, but we cannot see a reason to do things differently at this point, which is the reason for the inflation-rate increase.

**Patrick Harvie:** You are not aware of any dialogue between the Governments to decide what the best rate is: the UK Government sets it, and then the Scottish Government copies it.

**Ivan McKee:** As I say, it is an inflation-rate increase, so it is based on the retail prices index, which is common across the UK. We could decide to do things differently and to deviate from the inflation-rate increase. We would be perfectly capable of doing that if we decided that that was the right thing to do. This year, however, we have decided that the inflation-rate increase makes sense. It is a question not of following the UK

Government but of following the inflation rate, in effect.

**Patrick Harvie:** Well, that is a matter of perspective, I think, but thank you.

**The Convener:** As there are no further questions, we move to item 5, which is formal consideration of the motion on the instrument.

*Motion moved,*

That the Finance and Constitution Committee recommends that the Scottish Landfill Tax (Standard Rate and Lower Rate) Order 2021 be approved.—[*Ivan McKee*]

*Motion agreed to.*

**The Convener:** Later this week, the committee will publish its report on the two instruments that we have considered today.

As this is the last public item on the agenda and, I think, our last planned meeting in the parliamentary session, it only remains for me to sincerely thank all committee members for the consensual and diligent way in which they have gone about their business. I want to say a huge thanks to the clerks for their fantastic support and advice, and for their high level of professionalism. I now close the public part of the meeting—

**Murdo Fraser:** Before you close, Bruce, I wish to say a couple of things. First, I echo your thanks to the clerking team. Some members might not be aware of this, but our clerking team was called in to staff the COVID-19 Committee when it was set up last year. For a large part of last year, they were double jobbing, serving the Finance and Constitution Committee and the COVID-19 Committee, which I convened at that point. I have a slightly different perspective, because I know that they had to do two jobs at once, so particular additional thanks are due to them.

As committee members, we must also put on record our thanks to you, Bruce, for convening the committee almost from the very start of the Parliament. If I remember rightly, Michael Russell was the convener for a very short period before he was elevated to the Cabinet, and then you came in. It has been a pleasure working with you, and you have demonstrated your capabilities as an able chair of the committee with a remarkable track record in achieving consensus on reports. Given the diversity of views on the committee, that has been no mean feat.

We would like to thank you and pay tribute to you for your service to the committee and, indeed, the Parliament over the period in which you have been an MSP. We wish you a very happy retirement.

**The Convener:** Thank you, Murdo. That is very kind of you indeed. All that remains for me to say is that it has been a blast. Over and out. I will see you in MS Teams in five minutes.

10:38

*Meeting continued in private until 10:46.*



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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