OFFICIAL REPORT
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Finance and Public Administration Committee

Tuesday 21 December 2021

Session 6

The Scottish Parliament
Pàrlamaid na h-Alba

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FINANCE AND PUBLIC ADMINISTRATION COMMITTEE
15th Meeting 2021, Session 6

CONVENER

*Kenneth Gibson (Cunninghame North) (SNP)

DEPUTY CONVENER

*Daniel Johnson (Edinburgh Southern) (Lab)

COMMITTEE MEMBERS

*Ross Greer (West Scotland) (Green)
*Douglas Lumsden (North East Scotland) (Con)
*John Mason (Glasgow Shettleston) (SNP)
*Liz Smith (Mid Scotland and Fife) (Con)
*Michelle Thomson (Falkirk East) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Jackson Carlaw MSP (Scottish Parliamentary Corporate Body)
Kate Forbes (Cabinet Secretary for Finance and the Economy)
Sara Glass (Scottish Parliament)
Michelle Hegarty (Scottish Parliament)
David McGill (Scottish Parliament)
Lucy O'Carroll (Scottish Government)
Ian Storrie (Scottish Government)

CLERK TO THE COMMITTEE

Joanne McNaughton

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament

Finance and Public Administration Committee

Tuesday 21 December 2021

[The Convener opened the meeting at 09:45]

Budget Scrutiny 2022-23

The Convener (Kenneth Gibson): Good morning, and welcome to the Finance and Public Administration Committee's 15th meeting in 2021. I thank Daniel Johnson for chairing the pre-meeting briefing.

We are meeting remotely today, and we have a single item on our agenda, which involves taking evidence from two panels of witnesses as part of our scrutiny of the Scottish budget for 2022-23. First, we will hear from the Scottish Parliamentary Corporate Body on its budget bid and then we will take evidence on the budget from Kate Forbes, the Cabinet Secretary for Finance and the Economy.

I welcome our first panel of witnesses. Jackson Carlaw MSP, the SPCB lead on governance issues, is joined by three Scottish parliamentary officials: David McGill, chief executive; Michelle Hegarty, deputy chief executive; and Sara Glass, group head of financial governance.

We have around an hour for this discussion and should direct questions to Mr Carlaw in the first instance. If he would prefer for an official to respond to a question, I ask that he make that clear to our broadcasting team who operate the microphones.

I remind members that broadcasting will also operate their microphones and that they should allow a few moments before speaking to ensure that they are heard. I plan to bring members in to speak in the order that we discussed previously but, if anyone would like to come in to follow up another member's question, for instance, they should type R into the chat function.

I will begin the questions. Paragraph 9 of the SPCB's submission says:

> "greater scrutiny capacity within the existing committee structure was needed to address the substantial increase in committee workloads arising from the impact of Brexit."

The following paragraph goes on to say that

> "additional staffing investment in respect of Brexit-related scrutiny"

has

> "been provided over the preceding three years".

What is the level of that investment and what are the continuing cost implications?

Jackson Carlaw MSP (Scottish Parliamentary Corporate Body): Thank you, convener. I would ordinarily have made an opening statement. Were you expecting me to do that?

The Convener: No, I was not expecting you to do that, to be honest. However, if you would like to make one, I would be more than happy for you to do that. I was quite surprised that there was not one.

Jackson Carlaw: Thank you, convener. Any time that I have presented before, that is what we have done and it is helpful to set out the main themes of the budget.

The Convener: Sure—fire away.

Jackson Carlaw: Thank you for the invitation to attend the committee. As you said, I am joined by David McGill, Michelle Hegarty and Sara Glass.

In this first budget of the new session, the corporate body is following up the commitment, given in February 2021 to the then convener of the Finance and Constitution Committee, that we would undertake a review of staffing resources to ensure a more robust and sustainable baseline for session 6. That request was echoed in legacy reports from other committees, as well as by a large number of members from all the parties in the Parliament during a debate around this time last year. It follows on from the review of members' staff costs as well.

Accordingly, our budget bid, which is based on robust analysis and planning, addresses our capability and capacity to support the work of members of the Parliament across the session. Following that proposed investment, we intend to steward our resources to manage pressures and uncertainties for the duration of the session.

Unfortunately, many uncertainties persist, most notably the continuing pandemic, which has placed significant challenges on how we operate and on our financial resources. However, the committee can be assured that the SPCB will continue to responsibly flex our resources to meet the demands that are placed on us, as it has done throughout the past 20 months. That remains our Covid assumption for the upcoming budget.

Excluding capital charges and non-cash items, the proposed budget for 2022-23 represents a net 1.4 per cent increase on the current financial year's budget, which was a higher budget largely because of the Scottish elections, for which the Parliament is responsible. For the committee's purposes, it is a 3.8 per cent increase on the previously presented indicative budget for 2022-23.

That is primarily attributable to three factors: first, the strategic review of SPCB staffing baseline for session 6, to which I have just referred; secondly, anticipated requirements for members' personal security; and thirdly, inflationary increases in the Parliament's running costs. Following the death of Sir David Amess, the corporate body has been reviewing the personal security support provided to members, and it is currently progressing a number of initiatives. However, it is our view that, until the requirements of and projected uptake from members are clearer, a prudent approach would be to create provision in contingency for this year, with actual financial amounts being baselined the following year.

The committee will be aware that inflation—the third area to which I referred—is now highly volatile, with forecasters predicting continued high levels in the medium term. Inflation impacts on all aspects of the corporate body cost base, and the current levels are driving cost increases ahead of the forecasts used in preparing the previous indicative budget. That additional pressure is captured in our budget bid for operational costs.

With regard to MSP and ministerial salaries, I can confirm that following the zero per cent increase in 2021-2022, the SPCB's budget bid reflects a 3.4 per cent uplift consistent with the application of the annual survey of hours and earnings index as laid out in the members' salary scheme. The staff cost provision uplift, using agreed indices, will be 4.5 per cent, which is in effect a provision of £139,200 per member for employed staff.

On running costs, the corporate body proposes to maintain a broadly similar level of investment, including projects to sustain our building facilities infrastructure and services. The pace of change in our operations is faster than it has ever been, as has been illustrated in the past 18 months by the addition of two new technology-dependent services—the hybrid parliamentary business platform and remote voting—about which members might wish to ask questions. We will continue to develop and support services to provide a secure and effective working environment online, at Holyrood and in local offices.

Convener, if you agree, I would like David McGill, the chief executive and clerk of the Parliament, to conclude the opening remarks with a brief overview of the staffing baseline bid, which you might want to ask about.

The Convener: I am happy to agree to that, Mr Carlaw.

David McGill (Scottish Parliament): Thank you, convener. I just want to give you a little bit more detail on what has driven our response to the request for a review of parliamentary resources to alleviate the pressures on members and the Parliament.

As members will be well aware, the post-European Union operating environment has made the devolution settlement hugely more complex. Whereas before there was a relatively readily understandable picture of reserved and devolved matters, policy has now developed in the context of the United Kingdom internal market, common frameworks, the Scottish Government's keeping pace power and the ability or desire of either Government to align or diverge from EU policy. Added to that is the UK Government's increased ability to legislate in devolved areas and the need for regulation in areas that were previously regulated by the EU.

All of that is leading to increased demand from committees for support in legal and procedural aspects of their policy development and scrutiny roles, as has been evidenced in a number of committee legacy reports at the end of the previous parliamentary session and a chamber debate this time last year.

On the wider issue of the effectiveness of our parliamentary committees, we have just established what I would describe as the most ambitious set of committees ever. As members will be well aware, we have added public administration as an explicit aspect of this committee's scrutiny, but we have also separated out civil and criminal justice, added civic participation to Jackson Carlaw's committee and retained the Covid-19 Committee as the Covid-19 Recovery Committee for the duration of this session. That ambitious framework will require to be supported by professional expertise in the Scottish Parliament information centre, clerking and legal services.

Alongside that, the Conveners Group is taking on a more strategic role with regard to parliamentary scrutiny of the Government in matters such as collaboration between committees, diversity and inclusion in committee work and post-legislative scrutiny. I am also conscious that the Government that we are tasked with holding to account has grown considerably in size since new powers were given to Scottish ministers and the Parliament in 2016.

We are also keen to deliver a step change in public involvement in the work of committees. Demand from committees for greater public engagement rose considerably over session 5, and we are committed to making further improvements that will enhance the quality of parliamentary scrutiny.

Finally, there are significant expectations that the Parliament's leadership will embed sustainability and progress our road map to net zero. Achieving net zero brings huge scrutiny challenges across all policy areas. The Scottish Government has established a net zero directorate and has a just transition minister and a cabinet subcommittee. That all requires a commensurate response from the Parliament to ensure that we deliver scrutiny of the increased Government activity in that area.

All of that has led to the bid for increased resources that has been presented to the committee today. I am happy to expand on any of that and we are content to answer questions on the overall SPCB budget bid for 2022-23.

The Convener: I will not repeat my earlier questions, because they lead on to a similar question. In the budget submission, you say that the SPCB is

"committed to enhancing the scrutiny function of Parliament, including promoting citizen participation, to enable our legislature and its members to perform their roles."

You also talk about the

"scrutiny challenges arising from Brexit"

and say that

"these complex issues will create significant ongoing scrutiny challenges for the Parliament, and its committees, throughout session 6".

You continue:

"we now need to move towards a more stable and sustainable staffing structure to best support scrutiny in this new, more complex environment."

Both you and Jackson Carlaw have touched on that. You went on to talk about the "huge challenge" of net zero.

For the record, how long do you expect the uplift in scrutiny work that has been caused by Brexit to last? You say that it will be "throughout session 6". Will that work peak at any point or will it continue at the same level? How do we quantify the huge challenge of monitoring progress on net zero and how do we estimate the additional staff required to assist MSPs in that work?

Jackson Carlaw: There are two important areas there. It is difficult to be certain about the long-term requirement for the scrutiny of issues arising from Brexit. We have modelled that as best we can. David McGill will touch on that. Net zero is similar. We have a sustained action plan for that. I am not sure whether you are talking about scrutiny in relation to net zero or about our scrutiny of ourselves and what we are doing to achieve net zero. Michelle Hegarty will be able to expand on that in detail. David McGill can comment on the Brexit aspect.

David McGill: We have probably now gone beyond the transition and are seeking to stabilise in a new operating environment. I do not see that as a peak that will tail off. We have moved into the post-EU environment and are looking for the resources that we will need to manage that environment.

The scrutiny of subordinate legislation is one example of that. There has been a sustained increase of about 50 per cent in the number of statutory instruments that the Parliament is required to scrutinise, compared to the number before Brexit. That is because of the need for regulation to happen in Scotland and at UK level, rather than at EU level. That is a stable picture. We have gone beyond peaks and troughs and are entering a new operating environment.

Michelle Hegarty can pick up on the issue of net zero.

Michelle Hegarty (Scottish Parliament): Jackson Carlaw alluded to two aspects of net zero. The first is our staffing capability and the support that we give to members and committees as they scrutinise how the Government addresses its net zero and climate change ambitions. Some of that is factored into the staffing bid, particularly on the parliamentary business side of the organisation. We have also invested in the environmental skills that we have in the organisation. Some of that will support us with our net zero ambitions as we hold ourselves to account in achieving those targets.

The corporate body already has a carbon management plan, which sets out how it will reduce emissions by 66 per cent by 2026. Some of that will be project spend, which features as part of our project budget this year. In addition, we, as officials, are undertaking a degree of learning and development in looking at the sustainability of some of our investment decisions, the ways in which we run the parliamentary estate and how we undertake projects, contract re-lets and things like that.

10:00

A number of bodies are involved. The corporate body will be responsible for establishing the net zero plan for the Parliament, and it will engage with that in the new year. Officials have a role in advising members and in running the Parliament. The Conveners Group has set itself a strategic priority on sustainable development, which we will seek to support. In addition, we expect that we will be held to account for the SPCB's plans through the Net Zero, Energy and Transport Committee.

The Convener: I asked specific questions about how the requirements have been quantified, because the budget bid, at £112.161 million, is very specific. If additional staff will be required, either to look at net zero or Brexit, or to enable committee scrutiny by strengthening committees, it would be helpful to know what has been decided with regard to staff numbers and the additional budget that would be required for those staff.

Jackson Carlaw: We have an understanding of the increase in staff numbers. We have had a number of part-time staff and temporary employees. On the overall number, David McGill will be able to give you a detailed view of the actual increase in staffing, if that would be helpful.

The Convener: Thank you—it is just for the record.

David McGill: I am happy to do that. The overall figure that we are seeking to pursue through the budget bid is a gross increase of 46 members of staff. That includes the 13 temporary staff with whom we have been operating for some time. That figure was sponsored by the corporate body and agreed by the predecessor finance committee. Moving beyond that, we are looking at a stabilisation figure of an additional 33 permanent posts above the current year's figure. That breaks down as a 6 per cent increase in the staffing budget for the year.

To give you a further breakdown, we know exactly where those staff are going. Of those 46 staff, 21 would be in the Parliament's scrutiny group, which consists of the committee office, the Scottish Parliament information centre and the participation and communities team; 10 staff would be in the business information technology team; and eight staff would be in the legislation and parliamentary business team. We have done a very detailed exercise on—[*Inaudible.*]

The Convener: That is helpful. That takes us up to 625 staff—is that correct?

David McGill: Sorry—I had an interruption there.

We conducted the exercise under Treasury green book rules for the process of proposing business cases. For each area of the Parliament, the group head was asked to submit a detailed business case with options appraisals. That is how we fleshed out exactly where the demands were for individual staff increases.

The Convener: That takes us up to a complement of 625. Is that correct?

David McGill: That is correct. For full-time-equivalent staff, the figure is around 600. The overall head count is slightly over the 600 mark.

The Convener: The reason why I am asking is so that people can put the bid into perspective. It is always good to have numbers.

Paragraph 12 notes that, in session 6, MSP staff cost provision increased from £93,000 to £133,200. Jackson Carlaw has advised us that that figure is now going up to £139,200. For comparison, this year, members of the Westminster Parliament have a provision of £177,500. What use has been made of the increase from £93,000 to £133,000? I realise that the current financial year is not yet complete, but there must be some indication as to what the uptake has been.

Jackson Carlaw: That is a difficult question to answer at this stage, because in the first year of a new parliamentary session, it takes considerable time to engage staff, particularly for the new members. There will be some members of this committee who are new and who have not yet fulfilled their staff commitment or have taken several months to do so. It is probable that there will be an underspend in the first year because members will have been recruiting staff, some of whose start dates will not have been until the autumn. We will probably not get the full answer on that until the next year.

Michelle Hegarty is monitoring such things and will be able to give the committee an indication of our utilisation. We are probably sitting at about four fifths in relation to the typical capacity in other sessions.

Michelle Hegarty: Recruitment is at about 80 per cent now. We have seen a little bit of churn in that, especially where members are still setting up their offices. As Jackson Carlaw suggested, we still have some members who are seeking to undertake recruitment. We will see that start to settle down.

The SPCB has also been keeping an eye on office cost provision because members are employing more staff. However, it is too early to tell whether there are any issues with that.

The Convener: In that case, it might be a couple of years before we can analyse that in any great depth.

Jackson, you and I were both list MSPs before being elected as constituency MSPs, and I am sure that you will agree that there is no comparison in terms of workload. How much longer will the SPCB pretend that there is no difference between the workloads of list and constituency MSPs, and will future assessments of staffing costs reflect that reality?

Jackson Carlaw: As you say, I have been both a regional and a constituency member. I noticed a considerable change in the nature of my workload when I changed function. However, I also acknowledge that, with the additional fiscal powers of the Scottish Government, the overall responsibilities of the Parliament have changed significantly since I was a regional member and I am now less convinced of the variance in workload between regional and constituency members.

There is a difference in the nature of the workload. However, from the work that the corporate body did when liaising with members across the Parliament during the whole Covid period, I know that the increase in members' workloads and the demands on them as a result of the pandemic has been considerable. As people have discovered Zoom and the whole nature of online inquiry, there has been a considerable increase in the ways in which people approach us and in the volume of those approaches.

There is also an obligation in that, at the heart of the entire scheme under which we operate, there is the principle of equality between all members of the Parliament. It is fundamentally important, notwithstanding how workloads have evolved, that all members of the Scottish Parliament are equal and are treated as such.

The Convener: That was very diplomatically put.

I will move on to my final question, which is on the £1 million contingency for enhanced security support for members. I realise that some prudent assumptions have been made in regard to that, which works out at about £8,000 for each MSP. What indications do you have of uptake? I know that it is relatively early days, but certainly I will not go up to anything like that level. What information does the SPCB have at this point?

Jackson Carlaw: We are undertaking an initial survey of members, which is out just now, to help to quantify that. When we get to a certain stage in the roll-out, members may well take advantage of the opportunity to have an appropriate survey of domestic premises or whatever, with recommendations—as was the case with office security assessments—that they may or may not wish to take up.

There are a number of technical challenges and fiscal challenges, such as taxation challenges, on which we are having to liaise with representatives of other Parliaments, but we are investigating a number of different streams in relation to members' security. I think that the best that we can do is come up with the contingency that we have. Obviously, we will have a far better understanding of that over the next 12 months, when we will be able to quantify the costs.

I am not sure whether Michelle Hegarty can add anything further to that. I think that I have pretty much summed up the position.

Michelle Hegarty: That is absolutely comprehensive, Jackson. We are moving at pace with officials on trying to understand the needs of members and how those might be resourced. We would expect to return to the matter early in the new year with the corporate body and, as Jackson said, members' feedback will help to inform what plans need to be taken forward and how that would be resourced. Come the next budgeting round, we will be much better placed to understand that baseline.

The Convener: I open up the session to colleagues' questions.

Liz Smith (Mid Scotland and Fife) (Con): [*Inaudible*.]—one of which follows on from that last question regarding personal security. Can I get some clarity on the timescale to which the SPCB will want feedback from members of the Scottish Parliament after they have sought advice from local police, which they were requested to do? When do you expect to get a good idea from members of the home security that they might require?

Jackson Carlaw: As Michelle Hegarty said, we are moving at pace. We will receive recommendations and requests will follow on from that. We are looking, for example, at whether there should be any national procurement to make it easier to deal with the issues—that might or might not be the route to go. There are a series of questions that we are currently exploring and investigating. We are taking advice from others who are going through a similar exercise, whether at Westminster or in Northern Ireland or Wales.

Clearly, there is a sense of urgency in relation to all of this, in terms of the reassurance that we want members to have. As and when we are able to make early progress, you can be assured that that is what we will be doing.

Liz Smith: That will be very helpful, because there are members who want a bit more guidance. The SPCB has done a very good job on the issue, and it was a very sensible recommendation for us to contact local police and so on for home visits. Lots of members would like to be able to feed back on those contacts and ensure that the SPCB can help them with some of the costs, hopefully in the not too distance future.

All three panellists have highlighted considerable extra expenses that the Parliament is having to cope with, including staff costs, security costs and on-going inflation. There are also some savings, as I can see from the numbers. What processes are there for the SPCB to estimate the changes in savings that will come about because of our changed working practices? For example, members' travel expenses over the period of Covid were less than what they had been before, because we worked at home, as did our staff. What processes are there for the SPCB to project whether the change to working practices will be permanent, and to project what savings will accrue from that if it does? How can that be worked out?

10:15

Jackson Carlaw: I will come to colleagues in a moment, but I fully understand and appreciate the question. It is difficult to be certain about that. Clearly, there has been a requirement for people to work at home for a large part of the pandemic, and as we move forward, that may vary in a number of ways.

We are acutely conscious not just of keeping people safe but of people's mental health and wellbeing, and we are aware that although some staff will continue to work remotely, they may choose to work remotely from constituency offices so that they are in a smaller community but are engaging with others. That in itself might change the nature of the parliamentary function of constituency offices and require them to be a more obvious extension of the parliamentary process, in terms of the ability to engage reliably.

A considerable number of members prefer to be at Parliament if they can be. As we saw in an excellent debate in Parliament last week ahead of a committee inquiry into future working practices off the back of the hybrid arrangements that we have experienced, some members may go forward on a variable basis. They might work remotely when they do not need to be in Parliament and be in Parliament more regularly when they have a particular physical need to be present.

We will monitor all that as we go along. Obviously, we applaud the work that the Parliament has done on the hybrid working that we have, but that is not to say that I do not understand members' frustrations. I can see my own party's WhatsApp chat line as we navigate our way through the hybrid working process. The Parliament is looking at ways in which we can make that more robust and extend the functionality of hybrid working. One of the big frustrations is our inability at present to intervene during hybrid contributions.

Michelle Hegarty could probably provide more detail on process that officials are monitoring in relation to the themes that I have just discussed.

Michelle Hegarty: There are two or three parts to the answer. The first is that the past 20 months have taught us a lot about managing Covid within our existing budget. One thing that the member picked up on was that there might be savings in certain aspects of the corporate body's budget, but that is counteracted by increased costs in other aspects of the budget. For example, there has been a drop-off over the past 20 months in travel costs, but unfortunately we have seen reduced footfall at Holyrood, which increases other costs such as catering. The way that we have had to handle the pandemic has also meant increased cleaning costs at Holyrood.

We have had to actively manage the budget to redirect and repurpose costs, and that is what we are planning to do for the new financial year. We have not included any additional Covid-related costs associated with that. In relation to the longer term, we have started to make assumptions around what we call new ways of working, which are the ways in which there will be a continuation of hybrid business in the Parliament. We need to invest in and support that, because it is more expensive to support. We have, in effect, introduced two new services: the hybrid business platform and remote voting. Parliament is currently discussing that and will do so over the next few months, but there is mood music that we will need to continue to support that.

In addition to that, we are seeing that more members, more of their staff and more of our staff might work more flexibly in the future. Our information technology costs will be driven up in order to deliver that, make sure that it is secure wherever people are located, and ensure that it performs well.

We are at the start of making assumptions around that and how our estate will change. Some of that will drive benefits for our environmental and sustainability targets, but we are only at the start of understanding how it will be driven forward over the remainder of the parliamentary session. That will come up in subsequent budgets over the next few years.

John Mason (Glasgow Shettleston) (SNP): I want to touch on two areas. First, I note the proposal to increase MSPs' pay by 3.4 per cent and staff cost provision by 4.5 per cent. Both increases seem quite generous, given that a lot of other people in the public sector are getting only 1 per cent. How would you answer a member of the public if they were to ask why MSPs and their staff are being treated so generously?

Jackson Carlaw: I would in the first instance say that we operate to indices that have been agreed by Parliament and to which we have adhered since we decoupled our members' salary costs from those at Westminster some years ago. At that point, we agreed to adhere to the ASHE index, which, last year, would have produced a 5.1 per cent increase in MSPs' salaries. Given the circumstances in that year, the corporate body took the view that it would suspend the arrangement and cancel the increase.

With regard to staff cost provision, again, that relates to the index that we have established. Of course, what salary increases are passed on to members of staff are a matter for each MSP, but the move protects the integrity of the sum that it was agreed was necessary for MSPs to be able to fulfil their function and to have the complement of staff at their disposal to achieve that aim. It would be wrong to remove ourselves from those two indices without very careful consideration.

John Mason: I accept that indices are important and that it is good that a totally subjective view of the matter is not taken every year, but would it not set a good example if we just said that we were going to take a 1 per cent increase, like a lot of the public sector?

Jackson Carlaw: I am genuinely reluctant for the corporate body to start interfering in that way. The decision not to take last year's increase was a very considerable one on our part, and I point out that it applied only to MSPs' salaries. Staff cost provision actually increased.

I am not sure whether the figure that you are using is correct, Mr Mason—Michelle Hegarty will be able to confirm that—but I have to say that I have always been uncomfortable with the responsibility for matters relating to our own pay resting with us. That is why I think that Parliament took the quite sensible decision that we would align ourselves with a particular index. Last year, the corporate body discussed whether we should change the index, and I was one of those who were reluctant to do so. Had we done so, in fact, a larger increase in MSPs' salary would have been recommended. I am not sure whether you are requesting a hair shirt by unintended consequence, Mr Mason, but I am afraid that you will have to blame me for getting a lesser increase than you might otherwise have received.

John Mason: That is fair enough—I just wanted to raise the issue.

I also want to ask about the Scottish Human Rights Commission. Perhaps you or one of your colleagues can explain the figure of £300,000 for contingency in that respect. As I understand it, it is already getting a 4.9 per cent increase, and it is also requesting an extra 25 per cent, which would bring the increase to something like 30 per cent. That seems like quite a lot.

Jackson Carlaw: You are quite right. The underpinning to all that is complicated, and I believe that David McGill is the best person to answer your question in detail.

David McGill: John Mason is correct with regard to the figures that he mentioned. The proposal is a result of a number of pressures that the commission has communicated to the corporate body that it is operating under. Principal among those is the consultation that the Government is currently running on a human rights bill, which would lead to increased responsibilities for the commission. Therefore, the commission is looking ahead to the workload pressures that will come through that.

The commission has also referenced a number of other sources of pressures, including the United Nations Convention on the Rights of the Child (Incorporation) (Scotland) Bill, which was the subject of a recent referral to the Supreme Court. The Scottish Government is currently considering how to bring that bill back to the Parliament and in what form. That will mean increased responsibilities for the commission.

The corporate body has requested a full business case from the commission, which it has received. However, rather than just accept that at a corporate body level, it will conduct an independent review. The corporate body is suggesting that the money that the commission is looking for here is placed into contingency, rather than put into the commission's budget line at this stage, in order that the independent analysis can take place and the corporate body can have independent assurance that the increased costs that the commission is anticipating are fully justified and paid out in terms of the business case that it has submitted.

John Mason: I take your point that there are a number of exceptional circumstances, but I feel that there are other areas of the Scottish budget, such as the national health service, which are also facing increased needs, but which cannot get a 30 per cent increase in their budget. I suspect that some of the other commissioners, such as the Children and Young People's Commissioner Scotland, could easily spend another 30 per cent of their budget. Therefore, I am looking for an assurance that, between you, you will be strict, thorough and rigorous, and will not just hand out a 30 per cent increase.

David McGill: I can give you that absolute assurance. That is why the corporate body has gone down the line of conducting an independent review of the business case that has been put to it.

John Mason: Thank you.

Michelle Thomson (Falkirk East) (SNP): Good morning, everybody. Thank you for the fulsome information—[*Inaudible*.].

I want to go back a bit and get a better understanding of the breakdown of the additional resource implications, which the convener probed earlier. You have described how the additional Brexit resource cost has gone down as we have moved out of the transition. However, I want to better understand your forecasting for the additional costs in terms of the full-time equivalent head count and the costs that have been triggered by the United Kingdom Internal Market Act 2020.

In particular, I would like to hear about some of the funds that are being spent directly in Scotland by the UK Government. Perhaps you allude to that in your submission when you talk about

“where the UK Government makes decisions which have a direct impact on devolved areas.”

What specific additional head count, whether triggered by the internal market act or any additional funds, such as the levelling-up fund, have you forecast in your budget for this year? I am not sure whether that is a question for Jackson or David.

Jackson Carlaw: I would go directly to David for a response to that specific question.

David McGill: I do not think that I can give an absolute figure to the member, but I can say that that is part of the parcel of pressures that are on the committee structure in the Parliament.

Earlier, I referenced the scrutiny that comes with the internal market act common frameworks and the ability of the UK Government to legislate in areas that were previously legislated for at EU level or purely at a devolved level. The analysis that has been done by the scrutiny group, which consists of the committee office, SPICe and the participation and communities team, has led to an increased bid of 21 posts there. The vast majority of the temporary posts that we currently have—10, I think—sit in that group, so it is a net increase of 11 posts. That gives you an idea of the scale, and of where, far and away, we see the biggest pressures.

The rest of the staff increase that we are looking for is spread across four other parts of the organisation. However, I can say that the bulk of the increased requirement comes from the hugely complex nature of the post-EU environment.

10:30

Michelle Thomson: I appreciate that it is extremely complex; I absolutely understand that. Thank you for the figures. It is useful to have them on the record.

Given the uncertainty about that and what looks to be an increased provision, do you see a point coming at which you would seek to charge back to the UK Government the costs incurred by the Scottish Parliament because we are, in accounting terms, in uncharted territory in which the new environment may come to be seen as special and beyond our normal operating environment? Have you considered the possibility of charging back or having that discussion? If not, would you consider that?

David McGill: That is not something that I have considered, and I am not sure that that would fit with the budgetary process. The corporate body’s ability to top slice from the consolidated fund when that becomes part of the Scottish block gives it the ability to identify the increased pressures on it. Charging back is not part of the process that we normally deal with, and it is certainly not something that I have considered.

Michelle Thomson: I have probably asked a question that nobody has thought about, but it may well come to that point if the head count and the additional cost are deemed to be significant.

I want to ask Jackson Carlaw a wee question. You mentioned tax in the light of the additional security requirements for members. What assurances can you give that the tax treatment vis-à-vis benefit in kind will be completely aligned between members of the Scottish Parliament and members at Westminster? You might not have been alluding to that. I apologise if you were not, but I wanted to ask that question.

Jackson Carlaw: It is important that there are whatever equalities can be achieved. At present, we are taking advice directly from Her Majesty’s Revenue and Customs, and members can be assured that all of that is under active consideration.

Douglas Lumsden (North East Scotland) (Con): Good morning, everyone. Jackson Carlaw mentioned the debate last week, which I watched. There was a feeling among most members that hybrid working of some sort is here to stay. Jackson Carlaw also mentioned that BlueJeans failed in that debate. What are your thoughts on whether there should be an alternative back-up system in case that happens again, and on remote voting? Remote voting sometimes takes quite a while in the chamber, and it is frustrating. Is there provision in the budget to look at ways to improve things in those two areas or to change the systems that we use at present?

Jackson Carlaw: From a personal perspective, it always occurs to me that a vote in the House of Commons takes around 15 minutes and that we sometimes have 10 or 11 divisions in the Scottish Parliament, so we would be there for several hours if we were to follow that process.

I understand the frustrations that some members have experienced. Sometimes, the issues are to do with the robustness of the IT connection and network where the member is seeking to vote from. However, I still think that we have done a remarkable job in the time concerned. I might cheekily suggest that I have sometimes seen in the chat line—not so much in this parliamentary session, but maybe in the previous one—that some familiar faces have struggled to complete the voting process. I will say no more than that.

We recognise that what might have been thought of as merely a temporary requirement is a requirement that we will have to meet for the foreseeable future. As was said in the debate last week, changes in the longer-term working of the Parliament that might never have been contemplated at all now seem to be potentially more palatable and beneficial than they might have seemed if we discussed them in an abstract way prior to the pandemic.

That requires us, therefore, to continue to invest in our technology to ensure that it is robust. I assure the committee that we are aware of the difficulties that members have had and that we are working all the time to improve the technology. I do not think, however, that we will ever be in an environment that is 100 per cent secure from any kind of failing, and no other Parliament is in that position either.

I turn to David McGill.

David McGill: Our two current offerings—the virtual platform and the remote voting platform—were put together at high speed. If that had been done as a planned exercise, we would have given ourselves probably at least six months, if not longer, to set up the platforms. However, we needed to get on and make the best of the situation in which we found ourselves, and we have made adjustments and changes as we have gone along.

Like Douglas Lumsden, I listened carefully to the debate last Thursday to monitor how members are coping with the system and their views. I noted that there is frustration at the inability of members to intervene on one another if one of them is contributing from a virtual environment. We are actively looking at enhancement in that regard—I have seen a pilot for how that might work, and it looks very good to me, so we are currently going into a testing phase. That is an example of an enhancement that we are seeking to make.

We are also looking at a complete replacement of the sound and voting system in the chamber, which will encompass remote voting. However, we have had to pause that, because the market has changed rapidly since the whole world went into a lockdown situation. We are waiting to see how the market matures on that front, but we are actively looking to build on the platforms that we already have. Our assumption is that, post pandemic, whenever that might be, we will retain some element of hybrid proceedings, and it is incumbent on us to ensure that those offerings are the best that they can be, and that they enable us to present parliamentary proceedings in the best possible light. That is what is driving our on-going support for the current platforms.

Douglas Lumsden: I want to point out that I was in no way being critical; I realise that the systems were put together at pace. Looking ahead, we realise that we will probably have some sort of hybrid working in the future, so we should look at the systems. We probably have a bit more time in which to do so because we have something else in place right now. I was in no way being critical of the staff who put the systems together at pace.

Daniel Johnson (Edinburgh Southern) (Lab): My colleagues have covered the major issues. I want to raise an issue that may seem slightly niche and left field. The shopkeeper in me could not help but look over the figures for the Parliament shop, and I have some observations.

The shop’s revenue was £250,000 in the year preceding Covid, and footfall in that year amounted to around 260,000 visitors. That revenue strikes me as very low. It is important, in these times, that we ensure that the Parliament maximises not just its ability to control costs but its revenue.

I also observe that, in your forecasts, the gross profit margin is going to jump from 44 per cent to 50 per cent. Although 50 per cent is a better profit margin for a gift shop, any forecast that sees a gross profit margin increasing by 5 per cent would make me ask how that will be achieved. I also observe that the forecast does not really account for the true cost of operating the shop—there are no utilities and no hypothecated rent. I suggest that, if you were to add those things on, the shop would probably be running at a loss, given that it is anticipated to make a profit of only £17,000.

Is it sensible for the Parliament to directly manage the shop? Might it not be better to lease or license it? It could be let to a third party operating under a licence to use the Scottish Parliament branding. There are other public sector providers such as museums and art galleries that run very successful shops.

There is a lot there. The broader theme is the question of whether we are making the best use of the visitor shop and whether we could generate more than the 80p per visitor that we seem to be generating with the existing set-up.

Jackson Carlaw: Mr Johnson, the radical shopkeeper in you is advocating the privatisation of our parliamentary estate.

Daniel Johnson: I would not call it that, Mr Carlaw, but you get the broad theme.

Jackson Carlaw: That is a legitimate question. Both Sara Glass, who has been with us but has not been able to contribute, and Michelle Hegarty might be able to come in on that. Sara can talk about the numbers. Michelle can talk about how we are trying to use the parliamentary estate in different ways, which might address the latter part of your question.

Sara Glass (Scottish Parliament): I will respond about the margins, the financial aspects and the question of whether the shop is fully costed. We agree that we are not presenting the shop as a fully costed entity. It has never been a priority to do so. We use the staffing resource quite flexibly, so the team also support other engagement activities. You are absolutely right on that point.

The nature of the shop is a different angle. That choice has been made as a way of supporting engagement. Michelle Hegarty can explain more about previous reviews of the purpose of the shop, what need it serves and what genuine opportunities we have, given that it is within the grounds and access is limited.

Michelle Hegarty: The shop is part of the wider experience for the public who come to Holyrood to engage for a number of reasons. The shop has been looked at for many years. We have looked at whether it should be run by an external provider. One challenge is that people have to come in through security and into a secure environment. That naturally constrains the footfall to those who are passholders or who are seeking to engage with the Parliament. That has been a barrier to considering whether we should outsource the shop as a going concern.

There has been a gradual drop in visitor footfall for the Parliament in the past decade. The new group head has been looking at a public engagement strategy. That would stimulate how we continue to engage with the public. There are a lot of new drivers for that. We expect to see new and different ways in which the public might engage with the Parliament after the pandemic. Those might not all involve being physically on site.

There is a need to look at our whole offering in the main hall, and there is active consideration of that at the moment. Keeping the shop as a going concern and as part of our overall offering at Holyrood will be part of any look at the range of what we provide for visitors and how we can assure ourselves that we are maximising income.

Daniel Johnson: I have one additional suggestion. It is 2021, but the shop sells no items online. I gently suggest that that opportunity should not be overlooked. Likewise, if you were to find an MSP who had particular expertise in retail, you might want to ask them whether they could provide any observations.

Jackson Carlaw: I will personally take that suggestion back to the corporate body, Mr Johnson. As a former customer of your former shopkeeping empire, I am happy to encourage that suggestion.

The Convener: As long as that is on a non-commission basis.

Daniel Johnson: Absolutely. I speak out of a sense of public duty.

The Convener: Of course.

That concludes the committee's questions absolutely on time. I thank Jackson Carlaw and the supporting officials for their evidence.

I suspend the meeting for five minutes to allow final checks to take place before the cabinet secretary takes questions.

10:45

Meeting suspended.

10:59

On resuming—

The Convener: We have been joined by Kate Forbes MSP, Cabinet Secretary for Finance and the Economy, for our second evidence-taking session on the Scottish budget 2022-23. Ms Forbes is joined by Scottish Government officials Lucy O'Carroll, who is the director of tax and fiscal sustainability; Douglas McLaren, who is the deputy director of budget, pay and pensions; and Ian Storrie, who is the head of local government finance. I welcome the cabinet secretary to the meeting.

I remind members and witnesses that our broadcasting team will operate the microphones and that they should pause for a few seconds before speaking to ensure that they will be heard. I intend to bring members in to speak in the order that we discussed earlier. If anyone would like to come in at another point, they should type R in the chat function.

All questions should be directed to the cabinet secretary, in the first instance. If Ms Forbes wants an official to respond, she should make that clear so that the broadcasting team can bring them in.

We have up to two hours for the discussion. Before we open up the meeting to questions, I invite Ms Forbes to make a short opening statement.

The Cabinet Secretary for Finance and the Economy (Kate Forbes): Thank you very much, convener. I thank the committee for allowing me to come and give evidence so soon after publication of the budget. Events over the past two weeks have almost overtaken the budget that was published, so this scrutiny session is hugely important.

This is another challenging budget; it is probably the most fiscally challenging budget that I have been involved in over the past few years. It is now, I hope, beyond debate that our overall funding for next year from the UK Government is falling. On the other hand, I recognise that our funding is greater than its pre-Covid levels. We can get into some of the numbers and the data during our scrutiny session.

I am keen to provide as much transparency as possible on the budget, given the extreme levels of volatility and uncertainty that exist right now, particularly in our fiscal outlook. I have set out clearly where we have had to make assumptions about our funding and I have set out some of the difficult choices. Even before omicron hit, it was clear that public services' responses to Covid would continue beyond the end of this financial year.

Over and above the impact of Covid, it is important, as part of our recovery, that we push ourselves to be as ambitious as possible within our fiscal constraints. It is very much a budget of choices and it is a transitional budget, as it continues to address the immediate pressures in the NHS and supports the recovery effort. It should be seen as a step on the road to our resources spending review for the longer term. The choices that we have made are all informed by the priority themes of tackling inequality, supporting economic recovery and fulfilling our net zero obligations.

I know that the committee has been busy this morning. I know also that predecessor committees have been interested not only in where budgets are spent but in how they operate, so I commend the report on budgets that I saw this morning from David Bell, David Eiser and David Phillips, which underlines the need for fiscal flexibilities and guarantees at a time of volatility such as we are in just now. I hope that that is in line with many of the committee's previous discussions.

I look forward to the committee's questions.

The Convener: Thank you very much, cabinet secretary. The committee looks forward to examining the report from the three Davids.

As you are aware, the committee has been given conflicting information and advice regarding the size of the Scottish budget from the Scottish Fiscal Commission, the Scottish Parliament information centre, the Scottish Government and the Fraser of Allander Institute. We will take the Scottish Fiscal Commission's figure for examination and consider its implications.

The SFC says that the Scottish Government's budget next year will be

"2.6 per cent lower than in 2021-22"

and that

"after accounting for inflation the reduction is 5.2 per cent."

At the same time, spending on the Scottish Government's largest social security payments, including new payments, is forecast to be £764 million more than the funding that it is forecast will be available through the UK's block grant adjustment in 2024-25, which will reduce the funding that will be available for other spending priorities.

The latest SFC forecast shows that Scotland is lagging behind the UK on economic performance, that income tax receipts are falling behind the block grant adjustment and that social security spending is exceeding the block grant adjustment, so how do we ensure fiscal sustainability?

Kate Forbes: I will answer that question in parts. On the size of the budget, you are right that the Scottish Fiscal Commission's figure is the one to prioritise because, ultimately, I cannot spend a penny more than the SFC has forecast. That really matters in terms of the overall size of the budget.

Her Majesty's Treasury's figures are useful too, because, as is indicated in its publication "Block Grant Transparency", the block grant is less than the current aggregate for 2021-22 in every year of the spending review. For resource, that will mean a £2.6 billion real-terms reduction for next year, and for capital it will mean a £0.5 billion real-terms reduction in 2022-23.

The convener referenced the forecast deficits. One of the key points to make is that we will use the forthcoming resource spending review to plan future years. On social security in particular, but also on income tax, we know that the Scottish Government needs to manage those within its budget and that our choices have a direct impact on the level of funding that is available.

There is an argument to be made—I have made it in the past and will continue to do so—about income tax and the methodologies that are used for bulk grant adjustments. You will know about the forthcoming review of the fiscal framework; I hope that the matter will feature in the review. However, to put it bluntly, I say that, when it comes to social security, the uncertainty—it is a demand-led budget—needs to be managed within a fixed budget. That is where multiyear spending plans are essential.

This is the first time for a number of years that we have been able to make multiyear plans. Inevitably, that will require that we make some very difficult decisions. However, at the end the day, that will allow us to plot out and plan how best to allocate the available funding to meet our evolving priorities over subsequent years.

The Convener: You said that the spending review would evolve to meet coming needs. Having questioned the SFC last week on the £764 million figure, I understand that it is, likely, a conservative estimate. Notwithstanding the fact that finding that money would lift out of poverty some people who, I hope, would no longer require such benefits, surely the number 1 priority should be to grow the Scottish economy faster than the UK economy, if we are not to end up reducing spending in other areas of the budget.

The purpose of devolved taxation is to allow Scotland to benefit from the powers—albeit that they are limited powers—to grow our economy faster than the UK economy and to allow additional funding to be available to Scotland. It is to try to squeeze a quart into a pint pot by having to find another £764 million from—[*Inaudible*.]

Kate Forbes: Absolutely. My entire objective is to grow the Scottish economy, ideally faster than the UK's, to ensure that people are in work and have well-paid and secure employment, and to ensure that we are more productive as a country. In that, from an economic perspective the budget needs to be seen alongside our other work. It is not just money that drives economic improvements: a wider policy landscape enables businesses to take risks and entrepreneurs to flourish and prosper.

However, we cannot get away from what the drivers are of, for example, income tax performance. We know that the Scottish economy is disproportionately exposed to the oil and gas sector. I am not passing judgment on that; it is just a fact. On volatility in the oil and gas sector, we know—irrespective of what any politician around the committee table or anyone else thinks about the future of oil and gas—from having been exposed to the sector that there being more redundancies has a knock-on impact on income tax. We need to understand the key drivers in such economic exposure, which, in turn, affects income tax performance.

There are two ways of resolving that. One way is the fiscal framework. I am pressing to ensure that the framework better mirrors the Welsh fiscal framework so that it takes into account the nature of the Scottish tax base.

The second way is to ensure that all sectors in Scotland are prospering. Lloyds Banking Group and PwC recently said that Scotland is already, and will continue to be, the place in the UK for green jobs. If we create green jobs and ensure that we attract talent to Scotland, that talent will contribute to the public coffers, which will result in an overall net benefit to the Scottish budget.

I reinforce that I absolutely agree that we cannot look at the budget independent of our economic aspirations for Scotland.

The Convener: Following on from that, I note that in your statement on 9 December you said:

> "Although the budget lays the groundwork for a green economic recovery from Covid-19, we must be clear that the UK Government's spending review has hindered rather than helped us on that mission."—[*Official Report*, 9 December 2021; c 70.]

Can you expand on that a little bit?

Moreover, on page 11 of its briefing to the committee, SPICE says that

> "Four of the eleven portfolios fall in both cash"

and

> "real terms".

One of the portfolios is net zero, energy and transport. If the priorities are to try to boost the economy and to take on the challenge of the climate emergency, why are net zero, energy and transport and finance and the economy two of the four portfolios whose funding, according to SPICe, is falling?

Kate Forbes: On your first question about the UK Government spending review, I think that I answered that when I pointed out that our budget will fall in every year of the spending review period. That is a challenging outlook for Scotland that underlines the challenging choices that we have had to make.

The other element is the opportunity for investment in, for example, infrastructure or the transition to net zero. From a capital perspective, the UK Government can do that through borrowing; ultimately, I am constrained by what is allocated to us in the spending review.

As for the overall budgets, I can take you through the detail of the net zero, energy and transport and finance and the economy budgets, but I have to make it clear that this has not been an easy budget. For me, the bottom line is that although, on one hand, we have headlines about record funding for Scotland, on the other there are hard choices to be made in determining where the funding is to be spent. In the net zero, energy and transport portfolio, we have absolutely prioritised investment in the transition to net zero; you can see in the budget the significant investment that is being made in climate change initiatives and the huge investment in energy. We are ramping up delivery of the heat in buildings programme, doubling Home Energy Scotland's budget to deal with energy efficiency and investing in hydrogen and carbon capture and storage via the emerging energy technologies fund. Significant investments are being made.

I will go back to the point that I started with. This is a budget of choices, and one of the three key themes that we have chosen is investment in the transition to net zero. You can see that in the infrastructure portfolio.

With regard to the finance and the economy portfolio, I have chosen to prioritise our enterprise agencies—Scottish Enterprise, Highlands and Islands Enterprise and South of Scotland Enterprise—and the Scottish National Investment Bank, as key levers and agents of economic growth. There will be views and opinions on how they can do their jobs better, so I am engaging with them. From a budget perspective, that is what I have prioritised.

The Convener: In your statement on 9 December, you said:

> "On income tax, the Government's priority has been to make the tax system fairer and more progressive, and to protect low and middle-income taxpayers."—[*Official Report*, 9 December 2021; c 72.]

However, on page 18 of its briefing, SPICe says:

> "Scottish taxpayers who earn between the proposed Scottish higher rate threshold (£43,662)"—

that threshold has not increased by inflation, and neither has the UK one—

> "and the rUK higher rate threshold (£50,270) will pay 41% income tax and 12% NICs on their earnings between these two amounts – a combined tax rate of 53%."

That means that people in Scotland who earn between £43,662 and £50,270 will actually be paying more in tax than people who earn more than that. Someone earning £51,000 will have a marginal rate of taxation of 43 per cent, because of the 10 percentage point reduction in national insurance. How can that be deemed to be progressive, given that that includes many people who have families and large mortgages?

11:15

Kate Forbes: The issue with higher-rate taxpayers paying the marginal tax rate of 53 per cent on income between the Scottish and UK higher-rate thresholds is, to my mind, another sign of the inadequacy of the devolution settlement. That issue is exacerbated by the decision to introduce the health and social care levy next year, which means that those taxpayers are facing a combined marginal rate of 54.25 per cent. I wrote recently to the Chief Secretary to the Treasury to request that the national insurance upper earnings limit for Scottish taxpayers be aligned with the Scottish higher-rate threshold, but that has not been granted.

My sense of it is that, if we believe in the full devolution of income tax—or even if we believe in the full devolution of non-savings, non-dividend income tax, which is what has happened—we also need to have a voice about the other areas of tax policy that interact with that. You have just talked to me about the interaction with national insurance contributions. There are also interactions with pensions and with some of the allowances. It is just that, often, the national insurance contribution issue dominates.

However, I will take a step back: we have chosen, as I think is clear, to make income tax fairer and more progressive. Therefore, the majority—54 per cent—of taxpayers will pay less income tax next year than they would if they lived elsewhere in the UK. However, that is balanced by the fact that we are asking those who can afford it to contribute a little bit more. In return, those living in Scotland continue to have access to a wider and better-funded range of public services in the UK, whether that is prescriptions or tuition fees.

The Convener: I can understand your argument about the UK, and, obviously, that is something that I subscribe to. However, if people earning over £43,662 are going to be confronted by a 54.25 per cent marginal rate of tax, perhaps the threshold should have been increased, rather than allowing the fiscal drag to ensnare more people in that tax net.

Kate Forbes: We have frozen the higher and top-rate thresholds and increased the starter and basic-rate bands. Largely, we have echoed what the UK Government has done with regard to freezing bands. I recognise that decisions made in previous years mean that that gap remains frozen this year.

The Convener: Local government is a bone of contention, as it is every year. According to page 11 of the SPICe report, four portfolios have had a reduction in cash and in real terms, and one of those is social justice, housing and local government. However, last night, I received a copy of the local government finance 2022-23 total revenue support, which looks quite reassuring overall. According to that, across Scotland, the budget increases from £11,043 million to £11,853 million, which is an increase of £810 million, or 7.3 per cent, so that looks good. However, £319 million of that is undistributed, so could you confirm when that will be distributed and how it will be distributed?

When I looked at the increase in funding for local authorities, I was disappointed to note that the wealthier and more prosperous areas, such as Aberdeenshire, East Renfrewshire and Edinburgh have significant increases of 4.3, 4.8 and 4.9 per cent. However, if we look at the poorer areas of Scotland, we see the Western Isles getting a 2.1 per cent increase, West Dunbartonshire getting 2.9 per cent, Inverclyde and Glasgow getting 3.3 per cent, Dundee getting 3.1 per cent and North

Ayrshire, which I represent, getting a 3.5 per cent increase. I am aware of the local government funding formula, but surely when we have a challenging funding situation we cannot have the areas with the highest poverty, highest unemployment and an ageing population—because many of the younger people are moving outwith Scotland or to more prosperous areas of Scotland such as Edinburgh, East Renfrewshire and Aberdeenshire—getting lower local government settlements.

Kate Forbes: There are several questions in there. I will take them in turn. The first is on the undistributed sums that you reference. They are considered by the settlement and distribution group, whose next meeting is on 18 January, I believe. It will decide how the undistributed sums will be distributed.

On the overall settlement, I know that there have been conflicting views. I say again that I am not here to deny that there are challenging decisions in the budget, which I had to make. There are challenging decisions in it. In the local government budget, there is a distinction to be made between the core budget and the overall settlement. We have protected the core budget in cash terms and there has been real-terms growth to the overall settlement.

The wider settlement is not just about Scottish Government priorities; by and large, they are shared priorities. Most local authorities will tell you, for example, that there are acute challenges in social care on both recruitment and the funding position. That is why the additional £200 million to support investment in health and social care that has come as part of the overall consequentials is so important.

Your last question is a very pertinent one. It is ultimately about methodology. I will repeat what I have said in previous years, which is that I am completely open to considering any changes to the funding methodology. The committee will appreciate that that needs to come from the Convention of Scottish Local Authorities, as much as from me, and that agreement is needed within COSLA about reviewing that methodology. I think that we should review it, but I cannot do that without a request from COSLA to do so.

The Convener: At the meeting on 18 January, is there an opportunity to allocate some of the £319.4 million of unallocated resources to some of the poorer local authorities?

Kate Forbes: I will bring in Ian Storrie, if that is possible, to speak to what the settlement and distribution group does. It is a fairly standardised process.

Ian Storrie (Scottish Government): The settlement and distribution group is a joint group with COSLA and local government officials. It makes decisions on the distribution of funding on the basis of the most appropriate metrics for the particular sums. If a sum is based on poverty alleviation or something like that, that would typically benefit the poorer local authorities, but if it is based on teacher numbers, for example, it might be based on things such as the numbers of pupils and schools.

The distribution methodology is applied separately to each funding line on the basis of the formula and methodology that both COSLA and the Scottish Government think is most appropriate for that funding line. The settlement and distribution group consists of Scottish Government, local authorities and directors of finance, and all decisions that are made by the group are then endorsed by COSLA leaders. It goes back to Ms Forbes's point that all the decisions on distribution are ultimately taken jointly with COSLA.

The Convener: Thank you for that clarification. I could ask more questions on that, but I want to move on and then let colleagues in. I have a couple more brief questions.

In developing its budget, the Scottish Government assumed that it would receive extra income of £620 million to the resource budget in 2022-23 from a number of sources, some of which is still a matter of negotiation between the Scottish and UK Governments. Last week, the committee pressed the Scottish Fiscal Commission and economist colleagues for details of that and they were not really able to solve the mystery of those sources, how much they will be and the likelihood of them coming to Scotland. Can you enlighten us a wee bit on that, cabinet secretary?

Kate Forbes: I would be happy to. I remind the committee of our position last year: the budget included £500 million of additional Barnett consequentials, which had not been confirmed, although an assessment had been made that it was highly likely that that funding would arrive, and ultimately those assumptions were exceeded in aggregate. We try to take decisions in the budget based on the best available evidence. As you will all know, because of the way in which the funding position works, additional announcements are often made in year that, had they been baked into the budget from the beginning, might have led to more efficient use of funding.

In next year's budget, we have made similar assumptions surrounding likely sources of income. Those assumptions include, first, income from the next round of offshore wind leasing, the precise scale and profile of which is expected to be confirmed early in the new year. If the budget had been later—as it has been in the past two years—that would have been factored in.

The second assumption relates to the resolution of a long-standing disagreement with the Treasury on the effect on the block grant of personal allowance adjustments. The methodology was finally confirmed this summer, although it is still part of live discussions and negotiation.

The final element is further Barnett consequentials, including some that, despite being linked to UK spending announcements, were not included in the 2021-22 funding position—in other words, announcements that have been made but for which the funding has not been drawn down in this year.

From my perspective, if the budget were later—let us say, March—it is quite likely that we would have been in a position to factor in all those things. We have considered all those sources individually and collectively, to arrive at a prudent, risk-assessed figure of £620 million of additional expected resource funding.

Lastly, it is important to say that we have not made any assumption on the availability of resource funding from the Scotland reserve. We will see how this year pans out. The additional omicron challenges are putting extreme pressure on this year's budget. It is quite unlikely that there will be much to carry forward into next year.

The Convener: There has been a lot of debate and discussion on the resources that are available to the Scottish Government, but there has not been much debate on capital and infrastructure. Everyone accepts the figure on page 2 of the budget: there is a 9.7 per cent reduction in real terms of the draft capital. That is backed up by the SPICe report, on page 34. That has significant implications for Scotland's capital programme, particularly as the cost of materials is still much higher than the general rate of inflation. What projects in Scotland are likely to be put on hold, from repairing fewer potholes to building more schools? What are the implications of that severe cut in capital resources?

Kate Forbes: In the interests of being fair and transparent, we published our capital spending review last autumn, which set out where we intended to invest over the coming years. Unfortunately, the capital that was allocated to us through the comprehensive spending review from the UK Government was lower than the conservative and cautious estimates that we had provided in the capital spending review. It might be that some of that capital commitment will need to be managed over a longer period, but I still refer the committee to the commitments that we made in the capital spending review, because that has informed the choices that we have made in this year's budget. Of course, we have also chosen to make use of capital borrowing.

11:30

With regard to some of the high-level lines on capital, there is significant investment in infrastructure, decarbonisation efforts and the regeneration capital grant fund. There is a clear and ambitious willingness in the budget to use as much capital as possible, particularly next year, when economic recovery will still be vitally important.

I am happy to unpack any particular line, but I hope that that gives a general overview of our capital position.

The Convener: Yes, that is very helpful. I have a final question. You talked about choices; you have made your choices, and we can agree or disagree with them. In discussion with Opposition party representatives, have they provided any choices to you? In other words, rather than just asking for additional expenditure on a number of areas, have they pointed out where in the Scottish budget reductions can be made or taxes raised in order to fund their demands?

Kate Forbes: It is the hardest part of any budget to identify what must be reduced in order to increase other lines. I have met all the Opposition spokespeople once and am keen to meet them again because, now that they have seen the budget, there might be more clarity on changes to approach. However, although I might hear differently over the course of today, I have heard from the Opposition only about where budgets should increase. I am very sympathetic to that. I would love a budget where every decision is easy because we are able to invest at the requisite level in all areas of the public sector. Unfortunately, the nature of budgets does not allow that. Budgets must be informed by choices, and there are some difficult choices in the budget that I am not hiding from.

There are areas of criticism that I have heard loud and clear over the past two weeks, but I come back to the position that I have maximised the funding that is available to us. You have heard already what I have said about the £620 million of assumed additional funding, so there is no funding that I am withholding or sitting on, not least because I do not need to negotiate a deal this year. Therefore, as with every penny on the face of the budget, if we are to, for example, increase the local government settlement, where should that money come from? If we are, ultimately, to agree that health consequentials should go to health—which the UK Government is pushing strongly and the Scottish Government has incorporated—that leaves very little room for manoeuvre for other budgets.

The Convener: Thank you for patiently answering my questions. I will open up the evidence session to other colleagues.

Liz Smith: Good morning. Cabinet secretary, I know that you are keen that we stick to the facts that are contained within the Scottish Fiscal Commission forecast*,* which informed your budget, and I will try very hard to do so. Just before I come to questions about some of the Scottish Fiscal Commission's comments, I turn to page 104 of the Scottish Government consolidated accounts for 2020-21, which shows an underspend of £580 million, broken down across portfolios. Some portfolios have an overspend but some have a very considerable underspend, including big portfolios such as health and sport and transport and infrastructure. Can you be clear about why that underspend exists and what informed the choices when it came to overspend and underspend?

Kate Forbes: Thank you for the way that you have asked that question, because it allows us to bring more light than heat to the issues. I am happy to go through the figures, one by one, to explain. Just for the record, I have no issue with Audit Scotland's very important report, because Audit Scotland plays a hugely important role.

Regarding the figures on page 104, £580 million is the figure that has been identified not from Covid consequentials but from the total Scottish budget. That is against an overall budget of about £50.7 billion, so it is about 1 per cent of the total.

If we divide that further, £207 million of that is underspend on capital projects. That is primarily because of the impact of the last quarter when, as you will recall, we were in lockdown. A lot of initiatives were not able to proceed and could not draw down that capital. There was an appeal from community groups, local government and others to try to manage that slippage into this year. All of that funding has been allocated on an on-going basis to capital needs, including for infrastructure. One of the key lines, where there was an underspend of £321 million, was in transport infrastructure and connectivity.

On the issue of resource, I draw your attention to the fact that it is the health line that is seeing a significant underspend. You might wonder why on earth that is the case with health spending during a pandemic. You will recall that, in the last month of 2020 and the first few months of 2021, there were considerable late consequentials, particularly for things like vaccination programmes.

I recall the conversations that I had with health colleagues at that time. If I had obliged them to spend all that money in the run-up to the end of the financial year, that would not have made for a smooth spending pattern into this financial year. So, we agreed with health that we would try to manage some of their budget through the reserve, to meet the challenges prior to the end of the financial year and immediately after the beginning of the new financial year. In other words, that prevented any strange behaviour if they had desperately tried to draw down that money before the end of the financial year. Instead, they could manage the Covid response over that bridge of 31 March.

I realise that I am going on. I want to answer your question about where the money has gone.

The autumn budget revision was passed just a few months ago. It has formally allocated £560 million of that original £580 million. All the lines that show where it has been allocated are in the autumn budget revision, which gives a full account of how the money has been spent. You will see that health is drawing down a lot of that funding.

Liz Smith: I asked the question because there are people around the country who might ask why there is an underspend on the Scottish budget during a pandemic when businesses face serious issues. I think you said last week that you had spent absolutely every penny that you had to hand, but another £100 million appeared for business. Do you understand public concern about that £580 million being there but not being spent at a time when people have really urgent concerns?

Kate Forbes: Absolutely. I have two further points.

I strongly advise people to look at the page that you referred to. They will see that, of all the budget lines, the economy line overspent. We spent considerably more on business support than the funding that had been given to us, such was the importance that I placed on helping businesses to get through.

My second point is that we should compare that with previous years. There are well documented complaints every year about the Scottish Government carrying an underspend. I agree with that. We cannot overspend. It is illegal for me to overspend. Therefore, as we get closer to the end of the financial year, coming in under budget is a bit like landing a 747 on a postage stamp.

By way of comparison, there was a £669 million underspend in the previous year, which is 1.7 per cent. There is the £580 million figure, which is 1.1 per cent, with £392 allocated in the budget bill and £168 million in the autumn budget revision—I appreciate that budgets are hugely complex, with lots of different material. I can say that every penny is accounted for, and every penny has been spent. I maximise the value of every single penny in a Covid year, because I know that the needs far outstrip the availability of funding.

Liz Smith: You are quite right to say that you cannot overspend: that is absolutely a legal requirement for the Government. Notwithstanding what you said in answer to my first question, there are choices to be made. When it comes to certain underspends, which were large in the health budget—you have explained about future requirements when it comes to vaccines and so on, which I absolutely understand—there are issues around infrastructure, transport and so on.

In a period when urgent economic assistance is required, people are quite rightly asking what has driven the choices when you hold some money back for the next set of financial payments. What drives those choices that you have to make? That is what I am trying to ask you: what do you absolutely prioritise when it comes to the underspend money?

Kate Forbes: On the infrastructure side, it is capital. Capital cannot be spent for business grants, and it cannot be spent on day-to-day services. Capital is allocated to the building of a new school, for example. Someone will come to me regarding a hospital, which costs £100 million, let us say. That £100 million will be drawn down, although the hospital might not be completed by the end of the financial year. I cannot turn round and say, “Tough luck. You ain’t getting the rest of your hospital, because the money needs to be spent by the end of the financial year.” What I say is that, if there is £20 million-worth still to build, we will carry that money forward.

You ask me about choices, but I do not hold money back. The only time I have held money back, which was well documented, was just before last December when we were given significant additional funding of more than £1 billion in the final four months of the financial year. You will recall that I allocated it all and I said that I would hold £300 million in case of another wave. What happened on 5 January? We were all locked down and, thankfully, there was £300 million to invest in business.

I do not hold money back. All of the funding is allocated. The question is whether it can be drawn down, for example by vaccination teams or by the new hospital that is being built. Those are the choices, and the choices are determined, particularly during Covid, by a very volatile situation. I would much rather that we budgeted intelligently, than suddenly trying to get rid of money at the end of the financial year.

You will remember 24 December last year, as I do. On 22 and 23 December, we had been pressing the UK Government to say whether there would be additional consequentials, and we were told that there would be no further consequentials. Late on 23 or 24 December, we suddenly had hundreds of millions of pounds of additional funding. That had to be spent intelligently on business support in very short order. Managing significant additional sums of money late on in the financial year leads to poor decision making if you cannot carry it forward beyond 31 March.

Liz Smith: I am sure that other consequentials are coming, there will be immediate requests for that money from various groups in the economy, and I am sure that that will be well spent.

I turn my attention to another two sets of important statistics. One is from the Scottish Fiscal Commission, which projects a shortfall of £190 million in tax revenue take for 2022-23, possibly rising to £417 million by 2026-27. We saw yesterday the report that came out from the Confederation of British Industry and KPMG, which had the productivity index.

Putting those together, we see that the tax take in Scotland is not as strong as we would like. That refers back to some of the comments that you made in answer to the convener’s questions. Let us also be frank that economic growth in Scotland is also not nearly good enough, and the productivity indices that were produced yesterday show some really worrying signs. I want you to give us an idea of what you think must happen to address some of the serious structural issues in the Scottish economy that are the reasons why we are behind not just other parts of the UK but most other regions.

11:45

Kate Forbes: You started out talking about income tax, and I will refer to that quickly. When it comes to income tax, the choices that we have made have created additional spending power for the Scottish budget—there is often a misunderstanding about that. The challenge falls in the relationship of the block grant adjustment and the fiscal framework. A lot of that is to do with unequal growth between the highest and the lower earners. That is accounted for in the Welsh fiscal framework but not the one in Scotland, and I think that that needs to be part of the review of our fiscal framework.

Moving on to productivity, the report was very useful in its breaking down of the detail, particularly of where the challenge is. It is an issue that all developed economies need to grapple with. All developed economies have suffered from an extended period of weak productivity growth over the past decade or so. Tackling that challenge is not made any easier by the fact that we are facing into huge productivity head winds as a result of labour shortages, supply chains disruption, disruption to our trading relationships with our nearest and largest trading partners, and our demographic challenges.

What are we doing about it? I have a number of points. One is that, again, I see this as a top priority. I am not shying away from the fact that we need to grapple with our productivity challenge. One of the primary ways that we will do that is to set it out in our national strategy for economic transformation, which is our 10-year outlook. It will include core data on productivity and set out three recommended interventions, which have been informed by the strategy's advisory council of about 17 people. I am keen to publish that strategy. The committee will, however, appreciate that there are tensions around publishing an economic strategy that looks 10 years hence when businesses are in severe difficulty right now—three days before Christmas—so there is a bit of a timing challenge in doing that.

However, a lot of it will look at the need for public investment in core infrastructure, at private investment, or how we incentivise business to invest in businesses, and, lastly, at skills, or how we ensure that the workforce are in the right jobs, for the right businesses, during the right times. Those are the three areas that I would quickly recommend we step up our activity on.

Liz Smith: This is my final question. The CBI-KPMG report is pretty blunt in certain areas. It flags up that we have huge educational potential and that the skills agenda has potential in terms of green jobs, and all that is good news. However, when it comes to the traffic light—red, amber or green—on how we compare with other parts of the UK in terms of what our short-term and long-term bases are, there are some really worrying statistics about our weakness in business investment, exports and in-work training. I suggest, cabinet secretary, that those are related to issues in the structure of the Scottish economy. Can you say a bit more about how you intend to deal with those concerns?

Kate Forbes: The report highlights that business investment as a share of gross domestic product has increased in the past decade, but it is still low by the standards of the Organisation for Economic Co-operation and Development, and it has fallen in the two consecutive years since 2018.

What are we doing already? Our global capital investment plan, which was published earlier this year, does what it says on the tin—it tries to attract additional investment. The inward investment plan was published in 2020.

Those are both key to improving Scotland's business investment performance. We have seen good data tracking against that, but these are not things that can be delivered within a matter of months. We have already set ourselves a business investment target.

If I heard correctly, the second part of your question was about innovation and the fact that the share of innovation-active businesses in Scotland was about 32.2 per cent, which was a decrease from about 50 per cent in 2015. That area is one of the key elements of the national strategy, which looks at how we develop actions to improve Scotland's performance. Among the five objectives of the strategy, one is on productivity and another is on entrepreneurship, and they are closely aligned to innovation. It is about us incentivising businesses to do what they want to do, rather than us making substantial investment. A few sectors that are doing exciting things, from manufacturing through to the green economy, which is leading the way on innovation.

The Convener: Towards the end of the session, I was going to ask a range of questions on the KPMG and Fraser of Allander Institute productivity dashboard, so Liz Smith has saved the committee from hearing those questions.

We move on to questions from John Mason.

John Mason: We have covered a lot of ground already. The convener mentioned the figure of £620 million, which was obviously in the budget. Since then, there have been two announcements from Westminster of, allegedly, £220 million—twice—to help us. In addition, the Scottish Government has found £200 million for business support and self-isolation. Will you unpack how all those figures relate to one another? Is there any overlap? Are some contained in others or are they all completely separate?

Kate Forbes: The £620 million is obviously for future years, but it was based on assumptions of funding that had been announced but not allocated. That is all baked into next year.

The first £220 million was not a direct overlap, but announcements had been made that we had already baked into our budget; we had not assumed that we would get funding. For example, the £145 million relating to material change in circumstance, which the UK Government previously announced for businesses, was included in the £220 million, as well as in the £620 million. That illustrates that there is considerable overlap between money that the UK Government announced as new but which is already very much factored into our budgets, and between what the UK Government is saying will come this year and what we have assumed will come next year. Whichever way we look at it, it is not new money.

The additional £220 million that was announced on Sunday night appears to contain new funding. I again remind members that we only get funding consequentials from UK Government spend, so that money is based on funding that the UK Government intends to spend between now and the end of the financial year, but which it had not told us that it intended to spend. Basically, we have had an advance on any future announcements between now and the end of the financial year of new UK Government spend that generates consequentials.

It is complicated. I do not know whether you want me to expand on that, but I hope that it answers your question.

John Mason: I want to clarify matters, for my benefit and perhaps for that of a few others. You are saying that the £145 million was definitely included in the £620 million and in the £220 million. We obviously cannot use it twice, so the difference is £75 million. I think that I get that.

Kate Forbes: The balance of the initial £220 million was based on health funding that was already expected. We actually anticipated £120 million of additional health spending, but only £75 million was agreed. Therefore, with the second batch of £220 million, there is automatically a £45 million shortfall, which we have used to top up the original expectation on health funding.

John Mason: I think that I am reasonably clear in my understanding, but my colleagues might come in on that point, too.

One element of the £620 million is the personal allowance spillover dispute. It seems as though that has been dragging on for quite some time, yet you say in your response to the committee that you are hopeful of a "swift resolution". How solid is our expectation that that money will come in during the coming year?

Kate Forbes: My assumption that funding will be allocated is rock solid. Both Governments have agreed that a transfer to the Scottish Government is due, and they have agreed the methodology. When it comes to the transfer, you are right that the dispute dates back to 2017-18. There is some disagreement about the quantum of funding that should be transferred.

John Mason: Can you give us a rough idea of the figures that we are talking about? How wide is the disagreement?

Kate Forbes: The disagreement ranges from £400 million to £1.7 billion. It is a very significant range.

John Mason: That is helpful.

Kate Forbes: As you can imagine, that is part of the reason for the length of the dispute. I believe that the Scottish Government should be properly compensated as per the methodology and the agreement with the UK Government.

The key is that the funding assumption that we have made in the budget should not prejudge the outcome of the dispute resolution process, and we will continue to engage with the UK Government in good faith as we progress that process.

John Mason: Thank you. It is helpful to have those figures.

In her questions, Liz Smith made the point that you have spent all the money in the budget, yet you were able to find the extra £100 million, or perhaps £200 million, for business support. Will you explain how that happened?

Kate Forbes: Do you mean in terms of last week?

John Mason: Yes. Where is the money coming from?

Kate Forbes: It is £200 million—£100 million for self-isolation and £100 million for business support. We have gone through the whole budget and identified whether portfolios can contribute or allocate additional funding. I sought to identify funding in my own budget, and funding has been identified from other portfolios. Therefore, we have looked right across the board and identified funding on a portfolio-by-portfolio basis for that £200 million.

John Mason: I will move on to a different area, which relates to the forecasting of the Scottish Fiscal Commission and others. There is a challenge if the Office for Budget Responsibility forecasts that the UK economy—and, therefore, the tax take—is growing considerably faster than the Scottish Fiscal Commission forecasts that the Scottish economy is growing. SPICe has given us some comparisons. The OBR is forecasting a 6 per cent growth rate for the UK, and the SFC is forecasting a rate of 3.8 per cent for Scotland. If we look at some of the other forecasts, we see that the Bank of England's is at 5 per cent and the National Institute of Economic and Social Research's is at 4.7 per cent, while the Fraser of Allander Institute's is at 4.8 per cent for Scotland.

Therefore, the OBR appears to be a bit of an outlier in being quite optimistic about the growth levels, which could be causing our budget a problem. Do you think that the OBR is being overly optimistic, with the SFC being a bit more cautious?

12:00

Kate Forbes: It is for forecasters to determine these things as per their methodology. I would not want to get into the territory of criticising any forecaster's methodology, given that forecasters are independent of Government. I recently met the OBR and I have spoken to the SFC about the need to align their methodologies as much as possible, as that will make things easier for us. After all, if one forecaster bases its forecast on a far more optimistic scenario than the other, that creates a real challenge for us with regard to block grant adjustments and the overall funding that is available to us.

There are difficulties in that respect. This year, we tried to align the timing as far as possible to ensure that the methodologies, too, were aligned. Indeed, that is why we went so quickly after the UK Government's budget.

John Mason: You mentioned the Welsh block grant adjustment model as a possibility that could be considered in the fiscal framework review. I am not an expert on that model, but I understand that each income tax band gets treated separately. Does it have any downsides? If, say, there was a year or two when the Scottish economy did better than that of the UK, would we lose out under that model?

Kate Forbes: I am happy to bring in officials to respond, but I should point out that no methodology is completely risk free and that there are challenges and opportunities with all the models.

On balance, our sense right now is that we are being penalised by the growing gap between the richest and the poorest in the UK, which informs the fiscal framework methodology that is applied to tax. Indeed, prior to the pandemic, we were seeing growth in earnings, but there were still challenges with the overall funding that was made available to us. It is therefore overly simplistic to say that, because earnings have not been growing, there is a disproportionate impact on our block grant. There was earnings growth in Scotland, yet there were still challenges with the block grant.

I might be putting her on the spot unfairly, but I wonder whether Lucy O'Carroll has anything to add.

Lucy O'Carroll (Scottish Government): I want to underline what the cabinet secretary has already said. The issue of the differences in the tax base has perhaps been more powerful with regard to our tax performance than had been anticipated when the original framework was negotiated, but the fiscal framework review will cover a range of issues that we will negotiate with Her Majesty's Treasury and the UK Government, one of which will be the methodology approach. It certainly makes sense to look at how the approach that has been taken with others—in this case, the Welsh—works and to see whether it would be better to apply it to our situation, too. That is not the only element of the fiscal framework review, but it is certainly one that we will look at with the UK Government in 2022.

John Mason: Thank you very much.

Michelle Thomson: Good morning. I am finding this evidence session very enjoyable so far, and I thank the cabinet secretary for highlighting the complexity of the process of money being allocated, drawn down and spent, and how that expands from one financial year to the next. Of course, that is all about financial asymmetry, but I also want to explore our own asymmetry.

I had the chance to glance through the report by the three Davids entitled "Options for reforming the devolved fiscal frameworks post-pandemic", which recommends:

> "Given that devolved governments cannot really exercise full control over health policy in the absence of appropriate economic support measures, a feasibility study into making furlough-type support available on a geographical basis should be urgently undertaken and published."

You also correctly alluded to the fact that things have moved rapidly since some of the recent data came out. Do you have any indication yet of UK Treasury thinking about what type of financial support, such as furlough, could be available if and when the anticipated peak of the current Covid crisis hits us in mid-January?

Kate Forbes: You are right: the report by the Institute for Fiscal Studies is very helpful in giving an independent perspective on some of the risks that we have identified.

At the moment, I have no reassurance at all about what the UK Government might do to provide either additional funding or additional flexibilities or guarantees. We know that the UK Government has made an additional £220 million available. That is based not on known announcements but on what it thinks might be spent between now and the end of the financial year. If the funding is less than £220 million, or less than the overall £440 million, we will have to repay that funding. We still do not have the minimum guarantee that the report alluded to.

You asked about furlough. We would need HMRC to work with us to make anything specifically available on a geographical basis. That is recommended and suggested in the report that came out today, but I have no sense that there is any willingness or openness on the part of the UK Government to do that.

Michelle Thomson: You are carrying considerable risks. As a new member, I am not sure whether that is commonly understood.

I would like to move on to the medium-term financial strategy, in which you highlight a number of risks. One of those is the risk of

> "Fundamental changes to the operation of finance in devolved policy making as a result of the UK Internal Market Act".

Earlier, we heard from the Scottish Parliamentary Corporate Body, which has made provision for the scrutiny of changes triggered by that by creating an additional 21 jobs. That has a real cost implication, which the SPCB has done projections on.

Have you quantified that risk, beyond what is in your report? You have highlighted the risk, but what is the probability of its occurrence and what would be the implications if it occurs? It strikes me that the financial implications—from the point of view of real spend and of risk—are not yet sufficiently understood. Can you add some further colour to that?

Kate Forbes: The risks are significant and are exacerbated by Covid. The medium-term financial strategy that has just been published would not necessarily have taken into account the specific impacts of the omicron variant. The OBR would certainly not have taken that into account; I do not know to what extent the SFC would have done so. The forecasts were made pre-omicron. We have already had to make new funding available, and there is uncertainty about the extent of the impact of omicron. If it leads to a need for drastic measures further down the line, that will have an economic and financial impact that we will have to manage from within our own budget. That is a challenge.

That takes us back to my point about having the tools to deal with unexpected risks. No one—not even our forecasters—has the crystal ball that would be required to figure out precisely how omicron or other variants might unravel. We are absolutely dependent on the UK Government for additional funding. If we make that funding available from within our own budget, that puts at risk our ability to come to a position of balance by the end of the financial year, and I am required to be in balance by the end of the financial year.

There are huge risks, without our necessarily having the tools to manage them, which is why the period since the budget was passed has been hugely difficult and very busy as we have tried to figure out how we can squeeze any more funding out of our own budget to help businesses.

Again, I will pause and see whether anybody else wants to come in on the point about managing risk. It is probably unlikely, but one of my officials might want to add a little more flavour.

Michelle Thomson: It looks as though there are no takers.

I have one more question, which follows on from the point about risks. You correctly highlighted some of the implications around resource funding and for capital funding for the future—in particular, the risks to the national infrastructure mission for local and regional infrastructure.

From a risk perspective, that links directly with economic growth, and productivity is also thrown into the pot. Have you had a chance to give any more flavour to that risk, where there is direct investment by the UK Government in local and regional infrastructure? You might not have had such a chance—my question is simply on the back of the previous discussion in which we were focusing on resource.

Kate Forbes: With capital, there is almost an opposite risk in that it has to be managed over a longer time period because of the risks of Covid. That is where we get into the territory of trying to figure out how we carry forward funding from year to year. Last year, the situation was acute, given that—as I said—we had a lockdown in the last quarter. We then had to figure out how not to breach the limits of the reserve drawdown, and how to ensure that all that funding would still be available to us in subsequent years. Technically, local government can carry forward more funding than we can. The risk, therefore, is in ensuring that money can still be managed and drawn down.

Michelle Thomson: That seems ridiculous. That concludes my questions, convener.

Douglas Lumsden: Good afternoon, as it is now, cabinet secretary. John Mason asked about the £100 million for business support and the £100 million for self-isolation. I think that you said that that came from portfolio underspends. Did you stop at £200 million, or were there any more underspends that could be used for other things?

Kate Forbes: To clarify, that is not from underspend but from budget that was allocated. For example, in my own portfolio, budget had been allocated for some schemes and initiatives that we will now need to manage over a longer time period. All the funding was allocated, and the same applies to other portfolios. For example, in health, there was money that had been allocated. Right now, this year, we are managing a particularly challenging budget. That is demonstrated by the fact that there is no money in next year's budget that is based on an assumption of carry-forward. In other words, at this point in the financial year, we do not assume that there will be any underspend that could be carried forward, because we are fully maxed out on every budget line. The money that you mention came from a host of different sources, largely where we have had to phase things over a longer time period.

Douglas Lumsden: Did that exercise stop at £200 million, or was there more money that could be allocated?

Kate Forbes: This afternoon, the First Minister will set out, alongside the omicron figures and the next steps, what more we might be able to do for business. Most of that is informed by a figure of approximately £175 million that came from the UK Government on Sunday night. That is the £220 million, less the £45 million that was already factored in. That will be factored in this afternoon.

Any other funding that we make available right now is made available at some degree of risk, because it will need to be managed over the next three or four months. It is quite late in the financial year. At this point in the financial year, most of the funding is either contractually or legally already agreed. For example, it is for salaries, local government or legal commitments to do with transport, and it is very difficult to free up. Anywhere that we have discretion, it is about phasing it rather than either stopping something or delivering underspend. It is quite unlikely that there will be any underspends at this late point in the financial year.

12:15

Douglas Lumsden: You will probably expect me to ask about local government. Page 12 of the budget says that there is a real-terms resource increase of 4.4 per cent to local government. However, the briefing note that we received from COSLA claims that there is a cut of approximately £100 million to the revenue funding for councils compared to 2021-22. In relation to capital, the budget claims a 7.2 per cent increase, but COSLA claims that it is flat cash. Who do we believe when it comes to local government finance—COSLA or the Scottish Government?

Kate Forbes: I would always advise people to believe the numbers rather than necessarily anybody else’s take on the numbers. I know that Douglas Lumsden will know his way around the local government settlement probably better than anybody else. In relation to what the numbers show, I would differentiate, as COSLA does, between the core budget and the overall settlement.

In relation to the core budget, which is protected in cash terms, I do not recognise the £100 million figure that local government is using. COSLA recently wrote to me about that £100 million, and I am trying to get underneath it. My understanding is that COSLA is saying that it is for Scottish Government priorities, but I do not recognise the figure. As far as I am concerned, if you compare last year’s core budget to this year’s core budget, you will see protection in cash terms. Of course, the argument could be made that it does not take into account the impact of inflation, but I cannot inflation proof any part of the Scottish Government’s budget, such is the nature of inflation right now.

The other part to this is that there is real-terms growth to the settlement. I think—and hope—that Douglas Lumsden would probably agree that education and social care are joint priorities, and there is significant additional funding for health and social care integration. Although COSLA does not calculate that as part of its core budget, we see significant additional spend on health and social care and a significant additional spend on teachers and support staff. Of course, that also includes funding for free school meals, curriculum and music tuition charges and expanding the school clothing grant.

I hope that I have tried to be as fair as possible in distinguishing the budget as COSLA does. However, I certainly do not recognise the £100 million that COSLA references.

Douglas Lumsden: Looking at the figures that COSLA has provided, I think that a big piece of that £100 million is the employer national insurance contribution increase, which it has calculated as £70 million. I guess that it would complain that it has not been compensated for that while areas such as the NHS potentially have been compensated. Would that be a fair reflection?

Kate Forbes: I have not compensated the NHS for national insurance contributions. It has chosen to use part of its budget for national insurance contributions. That obviously has an inflationary impact. There is not a line in the budget that we received that is for national insurance contributions. I have taken the overall budget and allocated it, and all public bodies are being expected to absorb the national insurance contributions.

Douglas Lumsden: That is helpful—thank you. In considering the local government budget, I am also thinking about what the Deputy First Minister told us in the committee not that long ago about the shift to prevention. I guess that that is difficult when local authorities see their budgets being restricted in that way.

A report on obesity came out this week. Local authorities might be closing swimming pools and sport facilities, which will potentially bring about inequalities. However, people who can afford to do so can still go to private clubs. How can we address inequalities such as that when the amount of funding that local government is getting is being squeezed?

Kate Forbes: That is a very fair question. I return to what I think is an unfair distinction between the core and overall settlements. The figures from COSLA do not factor in the overall settlement. A lot of what is in the overall settlement is very much in the prevention space. I know that, if more money goes on social care, we are relieving pressure in acute health settings. I fought very hard in this budget to ensure that a fair share of the health and social care consequentials go to local government, because it deserves a fair share of those consequentials—they are not just health consequentials; they are health and social care consequentials.

You mentioned obesity, which is a good example. Take free school meals. I know that local government is as committed as we are to ensuring that children growing up in poverty have a nutritious diet. Doing that relieves pressure on parts of the health system.

You cannot just ignore the overall settlement. Once things such as enhanced funding for free school meals are included, we are talking about a cash increase of about £917.9 million, or 7.9 per cent, which is a real-terms increase of 5.1 per cent.

As part of the overall settlement, we need to be clear that those are shared priorities. That does not take away from some of the pressures that are in the local government settlement, but every one of my cabinet secretary colleagues and every public body is telling me about the pressures that they face. I do not think that any part of the public sector is cushioned from the budgetary pressures.

Douglas Lumsden: I want to move on to another issue. As a new member, maybe I am not quite understanding the point, but page 115 of the budget document says that there is city deal funding of £100 million for 2022-23. However, there is no figure for previous years. Could you explain that, cabinet secretary?

Kate Forbes: Yes, and, in doing so, I will also ask whether any of my officials wants to comment on whether a figure for that funding has been included in previous years, which is what you are comparing the 2022-23 figure with.

I will provide a bit of colour. City deal funding is a unique funding mechanism. The UK Government basically gives us a lump sum at the beginning of the financial year and we then manage payments to city deal partners. I am not aware of how the funding for 2022-23 compares with previous years. However, it is important to identify that city deal funding sits outside the Barnett formula; it is factored in differently from other funding, because the money comes straight to us and we then send it straight out to partners.

I do not see that any of the officials wants to come in, so that is probably the closest to an answer that can be given.

Douglas Lumsden: Perhaps I can get clarification about that afterwards because, as I said, there are no figures for previous years. If that money is coming in, it must be allocated out. I just could not see in the budget where it was being allocated to, which is straight out to local authorities, I guess.

My next question is about the north-east and Moray just transition fund. The budget shows that there is £20 million of capital funding for next year. Can you provide any more details on what that money will be spent on?

Kate Forbes: You are asking specifically about the money for the north-east transition—is that right?

Douglas Lumsden: Yes—the north-east and Moray.

Kate Forbes: That £20 million is part of the £500 million for the just transition fund, obviously. You will appreciate that quite a number of local partners want to have a say on how it is spent—my inbox certainly shows that. We have said that we are willing to engage with them on the specifics of how it should be spent, although, of course, it will be spent on helping with the transition.

Last year, in an agreement with the Liberal Democrats for £15 million of additional funding, we engaged particularly with Opportunity North East on how to allocate that money and I would want to engage similarly on how to deploy the transition funding. We have put the money in the budget and we are now engaging intensively to figure out the best way of deploying it.

Douglas Lumsden: Do you have a timetable for when those plans will come forward?

Kate Forbes: It will be as soon as possible. The money needs to be spent in the next financial year, and we are now three months away from the end of this financial year, so the plans have to be determined fairly soon to enable the money to start being spent early in the next financial year.

Douglas Lumsden: I have one last question, which is about the A96. We have heard plans about dualling the road between Inverness and Nairn. Is there still a commitment to fully dual the A96 by 2030?

Kate Forbes: There is funding in this year's budget to enable us to continue to invest in our key trunk roads. You will appreciate that the current plan is to fully dual the A96 between Inverness and Aberdeen. We have agreed to conduct a transparent, evidence-based review of the programme, which will report by the end of 2022. All road projects, including the A96, are subject to detailed review and assessment. We remain committed to making much-needed improvements to the A96, but we need to let that review run its course.

Ross Greer (West Scotland) (Green): I apologise for the fact that I had to step away from the meeting for a couple of moments to take a call, convener. If any of the questions that I am about to ask have been covered by a colleague, please interject and tell me to check the *Official Report* later.

Cabinet secretary, in response to John Mason's question, you clarified that the initial £220 million that was announced last week by the UK Government in response to omicron was money that the Scottish Government had budgeted for in next year's budget. Was that committed to other priorities, or is it all being used for the same Covid-specific purpose, meaning that it is being spent in exactly the same way as planned, just earlier than intended?

Kate Forbes: If you are asking about the UK Government's perspective, I can say that what the UK Government would normally do is make announcements and then confirm the final allocation in January or February. What it has done is confirm the final allocations in December rather than January or February.

There is a fundamental difference between cash flow and budgeting. Once we know that the budget is coming, it is our responsibility to manage cash flow. The funding does not necessarily come into our bank account; it has to be drawn down. That will happen before the end of the financial year, probably in January or February. However, now that we know that that budget is definitive, we can decide how it will be spent as part of our overall budget. However, the key thing is that we already thought that it was coming, so we had already budgeted for it in our overall budget plans.

Ross Greer: My apologies; I did not phrase my question very well. What I am trying to confirm is whether you still intend to use that money for the same purpose as you had planned, but at an earlier date, or whether it will now be deployed differently from how you had previously planned for it to be used in the budget.

Kate Forbes: I do not think that it will be deployed differently, because that would just create a big hole somewhere else. If I move that money, all it does is give me a headache elsewhere. It is not new money.

12:30

Ross Greer: You have clarified this morning that various portfolios are contributing to the £200 million that you announced last week for business and self-isolation support. Can you confirm the breakdown in that respect? Is the contribution from portfolios coming from projected underspends, or have other priorities been paused or cancelled so that the money can be redeployed?

Kate Forbes: The funding is certainly not coming from underspends, because this year's budget is particularly tight. It actually comes from a whole range of different sources, and it has been painstakingly built up from funding that had been earmarked for different initiatives and schemes. In my own budget, there were elements for employability, while in the health budget, there was other business that was going to be undertaken. Those things still need to be done, but they will need to be managed over a longer timeframe rather than being stopped completely. However, I think that we will get into the territory of having to stop things completely if no more funding is forthcoming.

Ross Greer: Is a breakdown of where the money is coming from available anywhere, or could it be provided to the committee?

Kate Forbes: No. It would not be available anyway, because it is all about our internal management of budgets. The key is the autumn budget revision, which we have just had, and the spring budget revision, in which every penny will be accounted for in a transparent way, particularly with regard to transfers. In other words, you will at that point see transfers from the area for which the budget had been earmarked to the area where it will be spent. At a time of quite considerable flux, any breakdown would just be a snapshot, and I therefore point you in the direction of the spring budget revision, not least because there might be additional announcements tonight. The fact is that, as soon as you publish one thing, it is out of date, but the spring budget revision will be the point at which you will be able to see all the allocations and transfers and to hold us accountable for our decisions.

Ross Greer: Going back to Liz Smith's questions on the Auditor General's report on the underspend in 2021 that was carried over into 2021-22, I know that you have explained the reasons behind that and the purpose of doing it, but to what extent do you expect a similar underspend to be carried forward from this year into the 2022-23 budget?

Kate Forbes: What I am discovering is that, in times of Covid, an hour is a very long time. Anything could happen. This time last year, the UK Government told us that there would be no additional pennies and then—within the hour, I think—something like £400 million was announced.

There are no guarantees at this point in time but, based on what I know right now about the budget, I find it difficult to believe that there will be much, if any, resource underspend. If there were to have been, we would have factored it into the carry-forward and baked it into the assumptions for next year's budget, which, for the first time in probably two years, we have not done.

Ross Greer: On a completely different issue, I note that, for the first time, the public sector pay policy includes a commitment to piloting a four-day working week, which I know will be welcomed by a number of unions. On the face of it, there is no immediate significant financial impact from the principle of the four-day working week or reducing the number of hours worked in a week for a similar level of pay, but how are you accounting for the pilot projects in the coming year's pay policy?

Kate Forbes: The pilot projects will require to be funded and will therefore have a financial impact. We had previously set out in our manifesto an overall quantum of about £10 million over the course of the parliamentary session for the pilots, and with regard to taking forward the process this year and working with public bodies, I think that everything will depend on the nature of the pilot. Obviously public bodies vary in size and in the average wage that they pay, so we will need to work with them to understand the financial implications. However, we are committed to taking forward trials this year.

Ross Greer: Thank you very much.

Daniel Johnson: I am almost tempted to start by asking what text messages the cabinet secretary has had, as she said that an hour is a very long time at the moment. However, I will not ask her to divulge that.

I am interested in going back to the points that the convener and Liz Smith raised about the Scottish Fiscal Commission's report and asking the cabinet secretary to extrapolate. I asked the Scottish Fiscal Commission representatives this question as well, when they were in front of the committee. Figures 2.3 and 2.4 in the commission's report, "Scotland's Economic and Fiscal Forecasts December 2021"—I do not expect the cabinet secretary to recall what those say—set out the tax net position and forecast the social security net position and new payments. Combining the numbers for 2026-27 for both those lines gives a tax net position of a deficit of £355 million, and social security represents £764 million of additional commitments and spend. That would indicate—if you accept those projections—that a sum of £1.1 billion to £1.2 billion would need to be found from other budgets.

Do you accept those projections? I accept that the issue goes beyond this budget, and it probably goes beyond the spending review in the new year. However, it is certainly on the horizon of this Parliament, and it suggests that some quite difficult in-line changes between budget lines will need to be made in the coming years. Is that a fair analysis of those forecasts?

Kate Forbes: I will start with income tax. It must be borne in mind that I have no choice but to accept SFC forecasts and figures—I am obliged to spend within SFC forecasts—so, in a sense, whether I accept its forecasts is almost a moot point. However, when it comes to income tax, the final position on the performance of income tax revenues next year—the year for which we are setting the budget—will be known only once the outturn data is published in 2024. My issue in next year's budget is to manage the reconciliation from two years ago, which was one of the lowest reconciliations that we have had to manage.

I come back to two points that I have made already. One is that managing budgets over a long period requires you to set multiyear spending reviews, and the spending review will need to factor that in. Therefore, the spending review will be able to allocate only the funding that we expect to receive. That includes grants from the UK Government as well as the income tax forecast. We will need to spend, and, once the outturn data is published, we will need to manage any reconciliations. In the past, forecasts of those reconciliations have nearly always been revised multiple times. The best way to deal with reconciliations is, of course, through resource borrowing for forecast error.

That confirms the point that we have made throughout the fiscal framework discussions that we need borrowing for forecast error to recognise the levels of volatility, whereby, in one year, the error could be £309 million and, in another year, it could be £14 million. We need to be able to manage both those levels. The borrowing powers are designed to smooth that path or trajectory, and to avoid our having to use real spending power for forecast error, because that is what it is—when it comes to the reconciliation process, we are talking about forecast error.

Social security is another challenge, because it is a demand-led budget, so we need to manage that. We have taken a slightly different approach in Scotland, which is, as far as possible, to promote uptake of social security benefits, because we think that people have a right to those. We will need to manage that.

My final point is that you will tell me—and I will agree—that the best way to deal with all that is to have economic growth, shared prosperity and fairness. That will not be delivered single-handedly by one budget. A budget is a list of spending commitments, whereas this is as much about policy as it is about spend.

Daniel Johnson: I will come on to that point in a moment, but I agree that what we should all be focused on, in essence, is getting more people earning money and getting those people who are already earning money earning more. We can all agree on the need for that to happen, and for it to happen as fairly as possible.

I understand the complexity of the reconciliations: the mechanism of block grant adjustments is simple when we see it on a flow chart, but it is complicated when we look at the different time lags. However, I feel that your answer was more about what happens within a given year, whereas I am really asking about the broad trend and the broad envelope, which will need to be addressed over the next three, four or five years. I recognise that you cannot predict the precise numbers that will drop out of those streams, but the overall picture that is painted by the Fiscal Commission involves placing downward pressure on budget lines that are not social security, does it not?

Kate Forbes: We will need to manage that. There is not really any other answer but that we will need to manage that within our resource spending review. Come back to me if I am misunderstanding the question, but the nature of social security is very different from that of income tax, because social security is demand led. I will therefore need to meet that demand—I cannot say halfway through the year, "Sorry, I've run out of money"—and we will need to take intelligent decisions about the nature of social security in order to meet that demand.

I fear from the look on your face that I have perhaps misunderstood the question.

Daniel Johnson: No—I kind of agree. Basically, income tax and social security bills are outwith your control in some manner or means and, if they put pressure on your budget, they will force you to manage budget lines elsewhere that are in your control, and that will be the dominant feature of the comprehensive spending review and the budgets in this session. That is what I am trying to get at.

Kate Forbes: Absolutely. You have hit the nail on the head. We cannot get away from how important the resource spending review is. I have to manage a trajectory of spend. In each budget, I can almost manage a snapshot of spend. This year, to get from A to Z, how do we plan?

The spending review will allow us to do two things. First, it will allow us to spend over multiple years, which can drive reform, and to manage budgets. It is difficult to drive reform on a year-to-year basis, as we end up budgeting for the immediate challenges in front of us, rather than for the challenges in three years' time.

The spending review also leads us to expect—and the SFC is forecasting—that, in two years' time, social security spend will be a certain figure, so we need to manage other budget lines on a trajectory of getting to a position where we are dealing not with huge cuts but with a plan that gets us there. That will not be easy.

Daniel Johnson: I rather suspect that, if Douglas Lumsden was asking questions after me, he would reflect that local government would like multiyear budgets and predictability just as much as the Scottish Government would, but I will move on.

On the point about growth, and especially income tax, the big surprise from the Fiscal Commission's report, in a sense, is that the reconciliations were a lot more detrimental than expected. Many of us were expecting them to be positive, rather than negative. Figures 3.16, 3.18 and 3.19 in the commission's report deal with income tax changes. This was touched on by Liz Smith, but it is worthy of further interrogation. I am looking at the change in pay as you earn—PAYE—in terms of mean pay and of total pay. It strikes me that there is more going on than has been alluded to.

Some of the analysis that was presented by the Government was that, as ever, Scotland is lagging behind London and the south-east, but the analysis that is presented in the report would suggest that the situation is actually significantly worse than that—the comparison is not just with London and the south-east. Critically, one would expect some of the points that you made about upper pay bands to apply equally to other regions, such as the north-east and north-west of England and Wales, yet Scotland is lagging behind on most of those measures. I would be interested to hear your analysis of that.

Professor Graeme Roy and others have highlighted the issue of labour participation rates for younger and older cohorts. Is that not a big problem? Should we not pay much more attention to labour participation and ensure that we are putting people into the right sectors, especially at a time when there are labour shortages? A glass-half-full view is that that is an opportunity to get people into better paid jobs.

Kate Forbes: There was a lot in that question. I will ask Lucy O'Carroll to comment, but we need to get beyond the headlines of what this means and what it does not mean. We might automatically think that it means that earnings are not growing in Scotland, but earnings grew in every year between tax devolution and the pandemic. There is clearly a challenge around the fiscal framework, but let us park that, because I have already talked about it, and it has been made clear that, where we see stronger earnings growth elsewhere, it still means that our budget is being reduced.

You mentioned the north-east of England. Of course, it does not have tax devolution. There will be an impact on its position and, more generally, we know that there are some inequalities there, but we also know that particular sectors in Scotland have been hit hard by Covid. I talked about the oil and gas sector, which contains some of the highest earners in Scotland. It has been through a tumultuous time and we have seen big challenges there, so I think that we need to understand that more.

I will move on to the solutions. You talked about labour participation, and I will bring in Lucy to comment on that. One of the keys here is to understand precisely where the challenges in the Scottish economy are and are not. There are some difficulties in relation to economic activity, and we are looking at how we can get more people into work. There are good reasons why many people are classified as economically inactive. For example, they may be carers, stay-at-home parents or students. However, there is another cohort who are economically inactive due to long-term sickness or for other reasons. We have invested intensively in things such as the no one left behind approach in order to bring those people closer to the labour market, although it is an incredibly expensive process, because the individuals need a lot of wraparound help and care.

I will stop at this point, if you do not mind, and invite Lucy to comment, because she is the expert on all things tax related, and particularly the aspects that get to the nub of the problem that we are discussing.

Lucy O'Carroll: On labour market participation and its implications for our tax take, as the cabinet secretary said, there are a variety of reasons for people not participating in the labour market—that is, neither seeking work nor classifying themselves as having a job. At the younger end of the age spectrum, that need not be a problem economically, because young people who are studying will arguably get into more productive work as a result, which will deal with the productivity issues that the committee has discussed.

The older end of the age range, however, has been more of a challenge for many years, particularly in the case of males aged over 55 who have health problems and have exited the labour force early relative to their counterparts in the rest of the UK. That could be partly a legacy of deindustrialisation in Scotland, as these things take many years to work through in the data.

The Government's efforts to address those issues, particularly in the older age group, take time to be developed and enacted, and to bear fruit, and when you operate within a fiscal framework that tends to run on annual rather than multiyear terms, there is a time inconsistency between the budget process within which you operate and the outcomes that you wish to attain. Overall, that means that, to build, reinforce and improve upon the tax base in Scotland, we need to address those longer-term problems, while we still have the challenge of managing within the shorter-term fiscal framework. The multiyear spending review will help us to frame that in a more effective multiyear context, and to address the issues in the labour market and, therefore, the issues in income tax as well.

Daniel Johnson: Forgive me, but, in a sense, that response just continued the description of the problem rather than providing analysis.

If we look at figure 3.19 in the SFC's report—this is directed more at the cabinet secretary than at Lucy O'Carroll—we see the particular problem in north-eastern Scotland. That is understandable, given the situation in the oil and gas industry. However, the issue is that no Scottish region performs better than the UK average. Indeed, no Scottish region performs better than Wales or Northern Ireland, which are devolved Administrations. Given that we have the levers, one would hope that Scotland as a whole would perform better than the UK average. At the very least, one would hope that some Scottish regions would do that, but they do not. Indeed, many of the regions that I have identified have exactly the same demographic problems and precisely the same issues with the legacy of deindustrialisation as Scotland has.

What is the analysis? Why is Scotland lagging behind? More important, why is every Scottish region lagging behind the UK average and the other devolved nations? Is that not a critical question that the Scottish Government must have a handle on?

Kate Forbes: When you say "lagging", will you tell me what metric you are using?

Daniel Johnson: I am referring to figure 3.19 in the SFC's report, which presents a crude aggregate picture of total pay growth between February 2020 and September 2021.

Kate Forbes: In other words, you are basically talking about earnings growth.

Daniel Johnson: Yes but, frankly, you can look at the other cuts as well. The two other perspectives that the SFC provides show roughly the same picture.

Kate Forbes: Earnings growth in Scotland increased every year between tax devolution and the pandemic. I do not have it to hand, but the analysis that we have been able to share as part of previous budgets shows that earnings growth and, in some cases, it shows tax take growing at a faster rate.

I point to three things. You will say that I am describing the problem, but we cannot find solutions unless we do that. The first is the way in which certain sectors have been hit by Covid. The second is the way in which higher earners in particular have been affected by the downturn in oil and gas. The third relates to what you called participation and economic activity, which is a legacy issue. How do we solve all that? Here are three answers.

First, we bring people closer to the labour market. We need to get them into work in the first place. I point to initiatives such as the no one left behind strategy that try to do that. They are relatively recent initiatives that specifically target the problems that we are talking about, not initiatives that have been running for many years and that have failed to deliver.

Secondly, from an economic perspective, we invest in high-growth sectors. Where are our high-growth sectors? What sectors will create the high wages or, at least, ensure that everybody is paid the real living wage and above? They are particularly in the green economy, but they are also in technology and life sciences—the areas where we have strengths.

The third answer is to make sure that we do the analysis on a regional basis. There are clearly areas in Scotland where wage growth is higher and there are more higher-rate taxpayers than there are elsewhere. The convener is regularly at pains to tell me about the need to invest in the west of Scotland; we must ensure that areas such as the one that he represents are not left behind and that we do not focus on creating jobs only in places such as Edinburgh and Aberdeen.

Those are three examples. They are works in progress, and we have not nailed them yet, but we all have an interest in ensuring that they work.

Daniel Johnson: Indeed; that is the only reason that I pressed the point. It is highly important.

I am conscious of time, but I have one last question, which is relatively broad. I would like to get the cabinet secretary's response to Stephen Boyle's comments, which were issued with the audited accounts last week. In reference to the Covid funding in 2020-21, he said:

> "While there is some high level details about how this money was used, the government needs to be more proactive, open and transparent with the provision of this important detail."

Critically, it strikes me that the budget is a balancing act between business as usual, immediate response to Covid and recovery. That is difficult, and to do it effectively, you need transparency, not just over what you have spent in the past, but on an on-going business basis. As well as responding to Stephen Boyle's comments, can you say how the Government will track the Covid spend between those three poles?

Kate Forbes: I heard those comments, and they reminded me of previous exchanges that we have had. If you will indulge me, it is worth saying that the accounts again attracted an unqualified audit opinion from the Auditor General, which is a sign of strength when it comes to the accounts.

How do we track the Covid spend? That is really difficult, and I will be open and honest with you about how difficult it is when it comes to the moving parts. In the past two weeks, we have seen a perfect example of how complex it is. Funding announcements were made, and the Scottish Government said that that money was not new spending power. New announcements were made, the Scottish Government said that some of that money was new spending power, and we set out how we were going to spend it.

The nature of our budgets at the moment is incredibly fluid. I would love it if we had a more mature debate in the Parliament about the nature of our budgets. As soon as I made the announcement about additional funding, the first calls were to ask what we had cut, and people were ready to lambast us for what we had cut. The nature of a budget is that things go up and down, and I would like us to have a more mature discussion about that.

I am open to ideas and recommendations about what we should publish. Two weeks ago, on budget day, we published a medium-term financial strategy, a five-year outlook, a public sector pay policy, our ambitions for tax and the budget document. That is all proactive and ahead of time. Now, we have published the accounts. This year, the accounts have received far more attention than they nearly ever do. The outturn statement seldom receives much, if any, attention, but it tells you what we actually spent, not just what we said that we were going to spend.

There are a lot of documents out there but, unfortunately, headlines emerge that are not always based on the hard fact within the documents. Perhaps that is because of political takes—I am not targeting that at the member who asked me the question, because he always does so in an intelligent and carefully considered way. If there is more that we can publish, we will do so. However, anything more that we publish will not be permanent; it will be a snapshot that will be out of date by the time of the next announcement, because that is the nature of budgets. I do not want to draw comparisons with being a shopkeeper, but unexpected things happen; budgets are only as strong as the ability to forecast perfectly, and none of us can forecast perfectly.

To cut a long story short, if there is more that I can publish, I will happily do so, but our on-going budget management is really difficult. That is why we have two points in time—the autumn budget revision and the spring budget revision—when we nail down where the budgets are at, rather than providing a running commentary on the nature of the budgets internally.

Daniel Johnson: That is helpful. I will add one point. There is also a question mark over the timings of some of those publications; timing them better could help with the maturity of the debate, and I am happy to discuss that in the future. I could go on, but in the interests of time, I will finish there.

The Convener: Thank you. I said that members could come in a second time, but no one has more questions to ask, and the cabinet secretary has given us more than two hours of her time, which we greatly appreciate.

I thank the cabinet secretary for her evidence today, and I wish her and all the committee members a merry Christmas and a happy new year when it comes.

Our next meeting is scheduled for Tuesday 11 January.

Meeting closed at 13:00.

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