OFFICIAL REPORT
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Finance and Public Administration Committee

Tuesday 27 September 2022

Session 6

The Scottish Parliament
Pàrlamaid na h-Alba

Tuesday 27 September 2022

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FINANCE AND PUBLIC ADMINISTRATION COMMITTEE
24th Meeting 2022, Session 6

CONVENER

*Kenneth Gibson (Cunninghame North) (SNP)

DEPUTY CONVENER

*Daniel Johnson (Edinburgh Southern) (Lab)

COMMITTEE MEMBERS

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

*attended

THE FOLLOWING ALSO PARTICIPATED:

Alison Douglas (Alcohol Focus Scotland)
Aaron Hill (Scottish Federation of Housing Associations)
David Lonsdale (Scottish Retail Consortium)
Catherine Murphy (Engender)
Clare Reid (Scottish Council for Development and Industry)
Stephen Smellie (Unison Scotland)
Polly Tolley (Citizens Advice Scotland)

CLERK TO THE COMMITTEE

Joanne McKinnon

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament

Finance and Public Administration Committee

Tuesday 27 September 2022

[The Convener opened the meeting at 09:31]

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

The Convener (Kenneth Gibson): Good morning and welcome to the 24th meeting in 2022 of the Finance and Public Administration Committee. Our first item is a round-table discussion on Scotland's public finances in 2023-24, and the impact of the cost of living and public service reform, as part of our pre-budget scrutiny.

I welcome to the meeting Alison Douglas, chief executive of Alcohol Focus Scotland; Polly Tolley, director of impact at Citizens Advice Scotland, who is attending instead of Rory Mair CBE, who could not be here today; Catherine Murphy, executive director at Engender; Clare Reid, director of policy and public affairs at the Scottish Council for Development and Industry; Aaron Hill, director of policy and membership at the Scottish Federation of Housing Associations; David Lonsdale, director of the Scottish Retail Consortium; and Stephen Smellie, depute convener of Unison Scotland.

I thank everyone for their detailed written submissions. Of course, we have moved on a wee bit from the content of some of those submissions, given that we have had two Chancellors of the Exchequer since then, last week's statement and the appointment of a new Government.

Incidentally, the committee also invited Scottish Chambers of Commerce to take part in today's discussion, but we have not received a response to our invitation. Exploring the written views of witnesses at committee meetings is an important part of our inquiry process, and this is the second time this session that the committee has invited Scottish Chambers of Commerce with no success. I consider it discourteous to the committee that, on this occasion, it has not even responded. I encourage Scottish Chambers of Commerce to contact us to discuss the matter. In the meantime, the committee may well wish to reflect on that when it comes to future inquiries.

We are very grateful to the witnesses for their attendance today and, indeed, for their in-person participation. We have around 90 minutes for the session, which is intended to generate a discussion rather than be a straightforward question and answer session. If at any time you would like to raise a point, please indicate to the clerk and I will bring you in.

I do not intend to chair the meeting in the way that I did last week; I could not do so in any case, because it is not a straightforward Q and A session, as I mentioned. There have been so many changes that we may dot around a wee bit in relation to some of the issues. That said, we will try to stick to some of the major issues that face us.

I will bring Clare Reid in first. Taxation is obviously at the forefront of everyone's minds at the moment, following last week's statement. In your submission, you state:

> "Scotland competes with other parts of the UK and other countries to attract investment and talent, and tax rates are one of the factors. Scotland's ability to retain, grow and attract businesses, and retain and attract key workers, will be absolutely pivotal in generating the rates of growth which will make its public finances sustainable and fund improvements in public services and spending."

What is your view on where we should go from here with regard to taxation in Scotland?

Clare Reid (Scottish Council for Development and Industry): I thank the committee for inviting us along this morning.

I will take a quick step back from that question to reiterate where we are in relation to the priorities for the spending review. At this point, particularly when the indication is that we are either going into, or are in, recession, we are very keen that spending is focused on areas that support economic growth, whether that is around investment in infrastructure, attracting inward investment or supporting businesses to grow and create new jobs.

As far as the situation that we are in at the moment is concerned, we released a statement on Friday to indicate that although we welcome the support for businesses and households on energy, we have some concerns about the United Kingdom Government's decision to cut taxes in the way that it has and to increase borrowing to levels that certainly increase the risk to the economy.

As to where we go from here in Scotland, we have had a range of views from our members about whether the Scottish Government should follow suit. One of the concerns is around the potential increase in complexity in the tax system in Scotland versus that in the rest of the UK.

We have had feedback from members around attracting talent and growing some of the key sectors that the Scottish Government set out in the national strategy for economic transformation, that are in the export plan and that are likely to be in the innovation strategy. Those sectors need to be able to attract talent and there is concern that, if we start to diverge significantly from the rest of the UK, that could potentially be a deterrent for some of those sectors in trying to attract new talent to Scotland.

The Convener: Nobody has indicated that they want to come in, so I turn to Stephen Smellie. In contrast to that, Unison Scotland states in its submission:

> "An IPPR Scotland report last year indicated that reducing the threshold for higher income tax to £40k (from the current £43k) would raise £690m."

In fact, Unison has made a number of suggestions about how tax should be raised. What is your view on how we move forward from the point that we are at following Friday's statement?

Stephen Smellie (Unison Scotland): I thank the committee for inviting me.

In your opening remarks, convener, you reflected on the changes that have taken place, what the Government announced last week, the reaction of the markets and all the rest of it. I think that most of us are even more worried about the economic situation now than we were even last week.

The priority for economic growth is well understood, and any trade union is obviously in favour of the creation of jobs. However, if at the same time we are forced into a position of cuts in public sector spending that result in loss of jobs—whether in local government, health, higher and further education or any other parts of the public sector—we will have a reverse motion in economic activity.

Workers who work in the public sector spend their money locally, and reducing their ability to spend, including through reduction in their wages, is a drag on the economy. I remind people of the austerity that public sector workers have had to experience over the past 12 years and of the fact that the value of their wages has declined by something like 20 per cent. That will continue in the current situation, with pay rises below the rate of inflation. If that purchasing power is no longer in the community, the local shops will not get the spending and the footfall that they need to maintain. We need to be careful not to talk about economic growth purely in terms of incoming companies.

We do not accept the argument that taxes should be cut or that the higher rate of tax remaining at its current level in Scotland will have any detrimental impact on the economy. The number of people that that involves is so small that we do not think that the talent that we have in Scotland would not be able to cope with that.

The other part of the issue is that it is about not only what people pay in taxes, but what they get in return in services. As a Scottish union official, I regularly go to London to speak to colleagues from other parts of the country. People always come back from those meetings and say, "Thank goodness we don't live in that country," because the services that we have up here continue to be better. They are not as good as they could be, but they continue to be better.

Therefore, there is a balance to be struck between levels of taxation and levels of service provision, and we argue that opportunities exist to raise tax from other areas. Our submission gives a range of examples of where money could be raised to assist with the problems that we have at the moment. I hope that the committee and the Government will start to look at a range of those areas in which we could increase public spending by raising that income.

The Convener: You said that you did not think that there is likely to be any behavioural change or impact as a result of the recent tax changes, but about 16 per cent of Scotland's income tax comes from the 0.6 per cent of the population who are high earners. Has Unison done any work to look at behavioural change and where the tipping point is?

For example, I remember asking about that when I was in the Basque Country some years ago. Their view was that, if there was a 2 or 3 per cent differential, there would be no difference but that, above that, behaviour started to change and it became more economically valuable to those who would consider such change—people who have high incomes and are mobile.

I invite other witnesses, not just Stephen Smellie, to comment on that area and to say what research they have on behavioural change because, of course, it is not just opinions that matter—it is evidence.

Stephen Smellie: I must confess that I do not think that Unison has done any specific research of its own on that issue that we could quote. We refer to the research from the Institute for Public Policy Research, which comments on the banding. Although we do not have our own research on that, we have evidence of skills shortages and shortages in labour at the lower end of the jobs market. We continue to have a recruitment crisis in social care—that is well known. People in a range of areas in key industries—the key workers who we all clapped during the Covid pandemic—continue to be paid very low wages, and we continue to struggle to recruit people at that level. That must be the priority.

In a local authority, a full-time cleaner would be paid something like £18,000 a year. The changes in tax will benefit them by a couple of hundred pounds at best. The chief executive who is on £180,000 a year will get significantly more benefit from the tax changes. However, that chief executive is not about to start looking to England or elsewhere for work. They are part of an integrated service. Therefore, I do not think that there will be an impact in that respect, but I accept that, from Unison's perspective, I cannot present any evidence for that. However, our strong belief is that that is not the priority area at this point in time.

The Convener: Thank you.

Ross Greer (West Scotland) (Green): I am interested in following up on what Stephen Smellie said. I found Unison's submission really helpful, in that the committee has a whole range of organisations that come to us wanting more spending in the areas that they prioritise, but very few folk are willing to come with proposals on how to raise additional money to pay for that or what to cut from elsewhere to do that.

That said, as much as I think that Unison's revenue-raising proposals are deliverable and could produce tangible results, even if they were collectively maximised, they would not raise enough money to match the spending commitments that Unison is looking for. Therefore, I am interested in the union's view on prioritisation. Is the priority free school meals? Is it increasing NHS funding? Is it keeping public sector pay in line with inflation? How should Parliament prioritise spending in a context in which, at least in the short term—over the next two to three years—we certainly cannot do everything on your spending list all at once.

The Convener: Ross, your questions are excellent—in fact, I was going to ask almost exactly the same as we move on—but I am trying to keep us to the matter of tax so that we do not jump about. I want Stephen Smellie to answer that question at the appropriate point, but I want to stay with the issue of tax at the moment.

Ross Greer: Yes, we can put that away until later—that is fine.

The Convener: We will move on to that. It is an excellent question and, as I said, it is one that I also wanted to move on to. Do you want to ask anything on the tax issue?

Ross Greer: At its core, it is the same question about prioritisation. Some of the tax proposals in Unison's submission would require primary legislation, as they involve new tax powers. Given that the legislative timetable for the next couple of years is pretty tight, which of the brand-new proposals—the local inheritance tax or the replacement of council tax—would you prioritise for parliamentary and Government time?

09:45

Stephen Smellie: That is a difficult one—thanks very much, Ross. Please write to me in advance with those sorts of questions. [*Laughter*.]

I cannot say, specifically. We in Unison have been discussing those ideas for some time and they have been the subject of discussions at Scottish Trades Union Congress level, for example. I think that they have also been mentioned in previous submissions to various committees in the Parliament. I am unable to say categorically which are the immediate priorities. That would be subject to deliberations here, among yourselves.

We are making the point that too much is said about having a fixed budget—we hear comments such as, "We've only got a fixed budget," and "We're entirely reliant on what we get from Westminster." That is a critical issue. We certainly support the idea that the Westminster Government should change its tack, so that more money goes into the public sector. However, the Scottish Government and the Scottish Parliament have the powers to introduce additional means of raising funding and we should be less shy about not doing so because of the fears of people from certain quarters. For example, the tax dodgers alliance will always criticise anyone who suggests raising taxes. We should be looking at how to introduce far more progressive taxation that will bring in more money.

We have made suggestions, but I cannot say which ones you should adopt first. However, we should start to look seriously, as a Parliament and as a country, at how we make taxation more progressive.

Ross Greer: Thank you. I would be happy to come back in later, convener.

The Convener: Sure—thank you.

John Mason (Glasgow Shettleston) (SNP): I will stick to the same theme. As David Lonsdale is sitting next to me, I want to ask the Scottish Retail Consortium how it—

The Convener: Sorry—I had David Lonsdale coming in after Daniel Johnson, as well.

John Mason: Oh, right. That is good timing.

If I understood the SRC's submission, it would like business rates to be lower and it would probably like income tax to be lower, too, so that consumers have more money to spend in the shops. Would you, like Unison, take the view that we could raise some of our taxes to compensate for that? Where do you see the balance between raising taxes and losing money?

David Lonsdale (Scottish Retail Consortium): Would you like me to come in now, convener?

The Convener: Sure—come in now. Don't worry—you will still get to say your bit on tax in a couple of minutes.

David Lonsdale: Thank you for the invitation to be here. I will roll the film back a little bit to give the context of what our budget recommendations are about. Retail has been in the eye of the storm over the past two and half years. It is somewhat perverse that we have had a very tough pandemic only to go straight into a cost emergency, as the First Minister has described it. Retailers and their customers alike are facing that. That is the prism through which we look at the Scottish budget and in which we have drafted our recommendations paper. We have made a number of tax proposals in our paper.

On business rates, to pick up on Mr Mason's comments, we have asked for a potential hike to be ruled out. Technically, we have not asked for a cut, but one can look at that as one does.

On income tax, we talk in our budget submission about ruling out any increases for those on modest earnings. We also go on to say that, if there were tax cuts at UK level, we would like to see those people on low or modest earnings to benefit similarly. I can come on to speak about that in a moment.

On raising new taxes, we tend not to be hugely in favour of additional taxes. Retailers and other businesses are paying quite enough on several taxes as it is. For example, the business rate is at a 23-year high. If I understand what might happen next spring, we could see a 10 per cent uplift. For retailers in Scotland alone, that would cost more than £60 million next year.

We have outlined a number of suggestions about how one might seek to save taxpayers' money or public expenditure. There is an entire chapter on that. I would be happy to explain that further. In terms of research and evidence, there probably is not a tremendous amount behind that, but we have pointed to a few suggestions.

I am happy to come back on some of the other points on income tax, convener.

The Convener: We will be covering other areas as we progress.

John Mason: I have another question, which is for Clare Reid from the SCDI. If I understood you correctly, you do not like the idea of fiscal drag, in which people effectively pay more tax because of inflation, for example. I think that your argument is that increasing productivity would be a better way of doing things. My question for you is more about timing. Even if we do improve productivity, we are probably talking about three, four, five or 10 years, whereas fiscal drag can help the finances now, can it not?

Clare Reid: Yes, but we think that there are things that could be done to support productivity now. We are probably more in favour of thinking about how investment can be prioritised to support economic growth and the strategies and plans that the Scottish Government is looking to bring forward, not least the national strategy for economic transformation.

Part of our focus is about saying that, although tax is a lever that can be used to shore up the public finances, we need to think about the consequences of that. The point about fiscal drag, which picks up a point that was made earlier, is that we do not have any hard evidence on that, either, other than what members are telling us about the likelihood of people in higher tax bands either choosing not to come to Scotland or choosing to take their labour elsewhere. I note that the suggestion from the data is that the number of people who will be in the higher tax bracket will go from 7 per cent to 17 per cent by 2027-28, which is quite a large proportion of the economy. Therefore, we have to think about the consequences of that.

We would prefer to think about ways in which we can support businesses now. We have asked our members and they have come up with a variety of things that would help them at the moment. David Lonsdale talked about one of them, which was not increasing non-domestic rates in the spring. Our members have asked us to think about ways in which Government can reduce the burden on businesses, which include not introducing any other new costs to businesses in the short term, continuing to support flexible and affordable childcare, and supporting businesses to invest in the things that they are having to do such as reducing their energy costs and upskilling their workers.

There are probably quite a lot of things that could be done in the short term to improve productivity. On the broader point about higher tax rates in Scotland versus elsewhere, our perception is that people can probably stand a slight differential in Scotland compared with elsewhere, but we need to be mindful of the gap that could widen in the current context.

However, as I say, our focus is probably more on making sure that we have the right investment in the right places for the long-term sustainable growth of Scotland's economy.

The Convener: We will come back to some of those things.

Daniel Johnson (Edinburgh Southern) (Lab): I want to make a brief comment about something that Stephen Smellie said earlier. It is important to note that a lot of Scotland's higher earners are in the public sector. We have a different profile of higher earners, so some of the tax points do not have the same impact in Scotland and England. It is important to understand that.

Before I ask my question, I remind the committee of my entry in the register of interests. I am a director and sole shareholder in a company that has retail interests, which is probably understating the level of bias that I have towards the retail sector, frankly.

I have some key questions for David Lonsdale. I was interested in the point in your submission about non-domestic rates and the proportion that retail pays. Could you elaborate a bit further about the impact that non-domestic rates have on retail? Critically, to echo the drift of some of my colleagues' questions, what do you think should replace it? It is one thing to say that non-domestic rates do not work, but should we be looking at something that is levied on revenue, or should it be a property-based or, indeed, a land-based tax?

Does the SRC or the British Retail Consortium have a view on what might be fair and, critically, what might be more in line or synergistic with economic growth, helping businesses and driving the investment in their local environment that rates might not?

David Lonsdale : Thank you for that question; there is quite a lot in it.

Daniel Johnson: I am sorry—I was not going to make it easy just because I like retail.

David Lonsdale : You have a retail interest and I am acutely aware of the expertise and experience that you have in the area as a former retailer or somebody who has a stake in the business.

On the impact of non-domestic rates and the proportion that is paid by retail, there are essentially two key outgoings for retailers. One is obviously the cost of their staffing complement, and the second tends to be the cost of their property footprint, of which the non-domestic rates bill, alongside rents, can be the largest component.

As I said earlier in response to John Mason, the poundage rate, for example, is at a 23-year high. It has gone up from something like 41 per cent to 49 per cent, which is a rise of somewhere in the region of 20 per cent over the past 11 years or so. I think that it was in the region of 35 per cent when the uniform business rate was brought in 15 or 20 years ago. It is a sort of hidden tax. It is not called a tax rate—it has the fancy name "poundage rate"—so it is somewhat hidden in that respect. That is why it is such a big factor for the industry. This is obviously a time in which, as you have alluded to, the retail sector, like other sectors, has gone through quite profound structural changes as well. More retail is taking place online than previously, and that has been accelerated throughout the pandemic. That is the context for why it is an important tax for the retail industry.

In regard to its replacement, that is where it gets a little bit thorny. The Governments at both the Scottish and UK levels in the past 15 to 20 years have tried to change local government taxation, and it has been quite tricky at times. We have put forward a number of proposals, and the Scottish Government has adopted several of them. More regular revaluations will come into effect from spring 2023, and in theory that should make the rates system more responsive to trading conditions. That is a positive. The long and the short of it is that we think that the poundage rate, or the tax rate, needs to come down to a more sustainable basis. That is one of the ideas that we have set out.

Allied to that, we have a higher property rate in Scotland; it is a slab tax. That will be of interest to a finance committee of the Parliament. If someone is liable for that slab tax, that cascades down into the valuation as well. The reality is that 3,000 shops and 12,000 businesses overall in Scotland are paying that. That means that they are paying a slightly higher tax rate than if they were to downsize, for example.

Daniel Johnson: One thing that struck me was the fact that 20 per cent of business rates revenue is being paid by retailers when they make up, crudely estimated, about 10 per cent of the economy. That sets the context in stark terms.

I have another question. I understand your wariness of things such as a tourist tax, but I think that individual levies such as that can be useful levers for local government. To be candid, my worry is that introducing them one by one encourages local authorities to put them up to the maximum. I would rather see a basket of different levies. If we could design those correctly, could they not be beneficial by ensuring that money from local economic activity gets invested in those towns, cities and local environments? That should be beneficial for both the businesses that want to operate there and the people who want to live there. Is it about getting those levies right rather than them being wrong in principle? I would be interested if you or other people have a view on that.

David Lonsdale: I think that your point about having a less piecemeal and more coherent approach to local taxes, or taxes in Scotland, is the fundamental one.

A number of those taxes have come forward. You mentioned the tourism tax, which I think is, or will be, on the statute books. The workplace parking levy is on the statute books, but I do not think that any councils have implemented it thus far. We have some thoughts on that levy, which are in our budget submission. Immediately before the pandemic, there was an attempt to end the uniform business rate in Scotland and allow the 32 local authorities to set their own business rates. That would potentially open the door to local supplements and things like that. Certainly a more coherent approach would be very welcome.

We are open to discussion on individual taxes. We make clear our views on council tax in our budget recommendations paper, which Mr Greer alighted on, and we are open to that discussion. I guess that where we are coming from is about questions such as, what does it mean for consumer spending? Will it bring in more tax or less tax? What does it mean for disposable incomes? What do those alternatives mean for businesses?

One of the original ideas from the current Scottish Government was a local income tax, but administering that had some implications for employers because, at the moment, each of us administers our own council tax, so that is another aspect to it. The other aspect is what it would mean for non-domestic rates, which is a key tax. There are various considerations, and we are up for discussions on them.

10:00

The Convener: Only two other folk have said that they want to comment on tax—David Lonsdale, again, and Clare Reid—but if anyone else wants to speak about tax, please do.

Incidentally, David, I found it curious that in your submission you said that you want to reduce

> “the number of local authorities, rates assessors, quangos, and planning authorities.”

I do not want to go into all of that, but I found it bizarre that you want to reduce the number of rates assessors because there is already a chronic shortage of them. How does not having people to assess properties help?

David Lonsdale : That is a mischaracterisation of our position.

The Convener: Your submission says:

> “savings might accrue from reducing the number of local authorities, rates assessors, quangos, and planning authorities.”

David Lonsdale : We are not saying that there should be fewer people undertaking rates assessments; we are asking whether there is scope to reduce the overall number of bodies. That goes with the grain of what the finance secretary said when she unveiled the spending review. I think that she said that there are 200 public bodies in Scotland and that we may need to try and reduce that number. There is one rates body south of the border—the Valuation Office Agency—that covers the entirety of England and, I think, Wales.

The Convener: So you mean that we should reduce the number of rates assessment bodies, rather than rates assessors as it says in your submission?

David Lonsdale: Correct.

The Convener: Okay, so it is an error in your submission.

David Lonsdale: I would not say that it is an error, because we meant that the number of bodies could be reduced. I cannot open the document to have a look, but I know that we talked about the number of public bodies—local authorities and others—and suggested reducing that number.

The Convener: What is the further comment that you want to make on taxation?

David Lonsdale: You asked about tax in the context of the new chancellor’s growth plan, which was announced on Friday. I am conscious that I have been asked a few questions and that I have spoken quite a lot, but I want to give you a heads-up on our position on that.

We like the idea of reeling back on the national insurance contributions increase for employees and employers. Retail is the largest private sector employer, so you can imagine that it faced quite a hefty bill when those contributions were increased. The reversal of that is a positive.

The U-turn on tax-free shopping got less attention on Friday. Around this time two years ago, the Scottish Government wrote to the UK Government asking it to think again about rescinding tax-free shopping, so it was good to see that U-turn announced on Friday. We think that it will be beneficial for various parts of the retail industry in Scotland.

This does not relate to tax, but the move to try and blunt the impact of increased energy prices on businesses was also welcomed.

The income tax aspect does not necessarily apply in Scotland, and we have some ideas in our budget submission as to how to proceed in Scotland.

The Convener: Thanks.

Clare Reid, you talked about fiscal drag, but there was no change in thresholds in Friday’s announcements, so does that mean that there is UK-wide fiscal drag?

Clare Reid: Yes. I was just making the point that fiscal drag can be a blunt instrument to bring more people above a tax threshold, and that it is part of the mix of tools that the Government has at its disposal. The point that I was making is that, in addition to thinking about rates, there is already the issue of thresholds.

I will also respond to Daniel Johnson's point about the tourist tax. We are often asked what businesses want, and we have regular meetings with civil servants about that. Based on those discussions, I think that there is scope to think about how tax happens at local government level, for example. In our submission, we encourage completion of the local governance review and looking at the fiscal framework for local government. However, the strong message that we have had from our members is that it is not the time to introduce new taxes on businesses, because of all the challenges that they face at the moment, such as rising costs.

Stephen Smellie: I will come back on a couple of points. I represent more than 100,000 members in Scotland who would aspire to be in the higher tax bracket. Low pay is still the scourge of the public sector and of Scottish society. There is merit in discussing the raise in the national insurance rate, which I think most people around this table probably opposed at the time because it took money disproportionately from the low paid.

I have a point about the reduction in the number of public bodies that David Lonsdale referred to. I am glad that we have clarified that that is not about the assessors but is about the valuation boards. Those are already shared services and do not exist in every local authority. Where I come from, in Lanarkshire, there is a North and South Lanarkshire shared body, which provides the assessors as well as dealing with the electoral roll and the other things that they are responsible for. I do not think that there is much merit in going for the centralised model that is used elsewhere.

There is a point about local accountability and local democracy. We cannot throw out the baby with the bath water. The drive towards centralisation is not necessarily a progressive move. The tourist tax is just one example of where local authorities have, could and should be given more leeway to raise funds locally. They would be democratically accountable for particular taxes that they wanted to raise.

The Convener: Are you not worried that some local authorities, such as Argyll and Bute, Highland or Edinburgh, would benefit disproportionately from such a tax, as opposed to authorities such as North Lanarkshire or Clackmannanshire?

Stephen Smellie: I must point out that there are lots of tourist attractions in Lanarkshire.

The Convener: I was planning a holiday in Coatbridge.

Stephen Smellie: I appreciate the point that you are making. I invite you to come for a holiday in Lanarkshire; it is a great place.

My point is that local authorities should have greater flexibility and more powers at local level to raise taxes appropriately for local expenditure. I appreciate your point. I remember that I did, in a previous discussion, suggest that there could be some element of pooling of tourist taxes. There could be central pooling so that Edinburgh, which could undoubtedly raise far more, could keep most of that but some could be pooled to assist tourism development elsewhere.

The important thing about a tourist tax is what the money is used for. There would be concerns if it was simply used to fill local authority coffers for no specific purpose. If it was used to enhance tourists' experiences and to make better visitor attractions, there would be genuine benefits for local people, businesses and workers.

Local authorities should have more powers to raise those funds for local priorities and we should always remember that local democracy and accountability must be central. The idea that funds should continue being sucked towards the centre defeats the purpose. We need local accountability in the long term, so that local taxpayers, businesses and workers can engage in discussions about local priorities. We should not forget that. Tax raising must be spread out. It should not be just central; it should be local.

The Convener: I will bring in Alison Douglas as the final person to talk about taxation. Alison, your submission talks about increasing the minimum unit price for alcohol from 50p to 65p, which would have obvious implications.

Alison Douglas (Alcohol Focus Scotland): Thank you for the opportunity to meet the committee.

In principle, we advocate a polluter pays tax on the sale of alcohol. That relates to what Daniel Johnson said about the opportunity to raise funds at the local level for investment in treatment and services as well as in prevention and enforcement.

Alcohol costs Scotland £3.6 billion each year. Despite what David Lonsdale said about the challenges that retailers face, there is no doubt that they have been making increased profits on the sale of alcohol as an unintended consequence of the minimum unit price. The business and regulatory impact assessment assessed that at £40 million of additional revenue per year so, over the four and a half years that minimum unit pricing has been in place, we are talking about £180 million of additional revenue.

It is clear that that additional revenue is going to not only larger retailers but smaller ones, which are talking about how they are able to compete with larger supermarkets. It is not just a question of iniquity, because the situation also creates the unintended consequence that those retailers therefore see alcohol as a more profitable part of their business, which makes them more likely to promote it and rely on it as part of their business model. That is distinctly unhelpful when we have such a chronic relationship with alcohol in Scotland. That relationship got worse during the pandemic, with alcohol-specific deaths rocketing—they went up 17 per cent in 2020.

On not only the point of principle of fairness and the additional revenue being used for public good but the practicalities of how minimum unit pricing distorts business models, an extremely helpful way forward would be a tax that, ideally, is based on the amount of alcohol sold; if we do not have that, we could have a proxy for it through non-domestic rates.

The Convener: Thank you very much. However, that was one of a number of suggestions about how we could raise revenue. All the submissions are disproportionately weighted in favour of additional expenditure but there are significant in-year reductions in the money that is available to the Scottish Government. There was a 5.2 per cent real-terms reduction in revenue and a 9.8 per cent reduction in capital this year—and that was with a 2.4 per cent inflation assumption, which has been blown out of the water to more than 10 per cent.

The point that Ross Greer made earlier was significant. I will let Stephen Smellie answer the questions that he asked in a minute, but first I will bring in Catherine Murphy because there is a compelling submission from Engender about how women are disproportionately impacted by the cost of living crisis. I ask Catherine to speak to that for a minute or two and discuss practical steps that the Scottish Government can take in its 2023-24 budget to try to change the situation.

Catherine Murphy (Engender): Thank you for the opportunity to speak to the committee. As someone from Coatbridge, I reassure you, convener, that there are many places to visit.

The Convener: I have been to Drumpellier park many times.

Catherine Murphy: Drumpellier park is beautiful at this time of year.

I listened to the discussion about taxation. We have some key messages that we want to get across to the committee, and there is some stuff that is relevant to taxation in there. However, the cost of living crisis is highly gendered. We are looking down the barrel of a situation that will deepen inequality. Women are often the shock absorbers in families and communities with regard to poverty. They have also borne the brunt of limiting the impact of Covid-19 on their families. Therefore, the cost of living crisis that we are being launched into now will have serious implications for gender inequality in Scotland, and it is great that we have an opportunity to discuss how it could be addressed in the budget.

The issues that face women include a significant and entrenched pay gap. We have wealth gaps across the life cycle. Women are overly reliant on social security. Additional caring responsibilities have major impacts for women in accessing employment and training. Unpaid childcare and domestic work is highly undervalued. Generally speaking, the care economy is massively undervalued in Scottish society, as it is in many other countries, but there is massive economic potential in it. It is worth approximately £8 billion a year. There are major opportunities for investment in, and strengthening, the care economy. That would have a massive impact on gender equality. Labour market inequality and occupational segregation are also impacted by women’s caring responsibilities.

10:15

Going back to your point about what could be done in the budget, I underline that inequality in all its forms—but particularly gender inequality, which I am here to speak about—is systemic and structural, so it requires a response in the same vein. In recent years, some progress has been made in Scotland on gender budget analysis and integrating a more systemic human rights and gender-based budgeting approach. However, we have a long way to go.

A whole raft of practical, enforceable recommendations from bodies such as the equality budget advisory group is ready to go. I encourage the committee to consider those and integrate them into its pre-budget scrutiny as far as it can. How revenue is raised and spent, and everything in between, impacts women disproportionately and can deepen inequality if we do not get things right.

We need to have a more systemic approach in Scotland. At the moment we have made tentative progress, but we need to do more to build a systemic response in relation to how our budgets are designed, to ensure that the ways in which we raise revenue do not deepen inequality. That goes back to what Stephen Smellie said about taking a disproportionate amount of tax from income and not wealth, which has a disproportionate impact on women. We must consider not only how we raise and spend resources but how we evaluate them once we have spent them. We must ask whether we are achieving the outcomes that we want to with the budget. We can speculate, but the only way in which we can measure that is if we have a much more systematic approach to lessening inequality in Scotland, which is what gender and human rights budgeting offers us.

The Convener: Thank you—that is very helpful. If anyone wishes to comment, I will be happy to bring them in.

Only Michelle Thomson has indicated that she wishes to speak, but I will also bring in Stephen Smellie again in a minute.

Michelle Thomson (Falkirk East) (SNP): I indicated that I wanted to bring in Catherine Murphy because I was so struck by the submission from Engender. Catherine, you have already highlighted the systemic nature of the issues that permeate every budget line and every facet of society.

I have a point to make on the back of our earlier discussion about tax. Yesterday, I was reading about the proposed changes that were announced as part of the mini budget last week. It seems that 80 per cent of the benefit in higher rate tax will be realised by men and that 77 per cent of workers who earn too little to pay tax at all—and who will therefore derive no benefit whatsoever from the proposals—are women.

In thinking about what the committee could do, I took a clear message from what you said in your submission to the effect that although good work has been done so far, it does not go nearly far enough in holding every single other committee of the Parliament to account. We lead on the budget, but those committees also give their views, which could include setting out specifically how proposals will both impact on women—thinking about that backwards impact—and benefit them so as to start to really move the dial on equality. Would you be in favour of the committee making a firm recommendation that every other committee in the Parliament must do that? I do not want to put words in your mouth, but should that also apply to every submission to this committee? I gently challenge our witnesses to set that out, too. Despite good efforts and willingness, it feels as though this is groundhog day for conversations about the impact on women. However, you are obviously the expert.

The Convener: Catherine, I know that you are dying to come back in, but Daniel Johnson and Clare Reid also want to comment. After they have done so, I will let you round up on the three contributions.

Daniel Johnson: I just wanted to make a wee observation to Catherine Murphy.

Your point about the systemic nature of inequality is absolutely spot on. It is disproportionately women who work in social care, for low pay. However, we are also seeing the costs of people who are stuck in hospital spiralling. I am constantly hearing stories of elderly people who cannot get home. The systemic aspect can be considered from a big or macro point of view, but also specifically. It would be interesting to hear your reflections on that.

Clare Reid: Sorry, I was hoping to come in on a different point about prioritisation, but I will add one point to what Catherine Murphy said. I agree with her point about the opportunity to think about health and social care—particularly social care—as an area for investment. Some of the work that we completed last year with academics and the Data Lab suggested that we should think about the ways in which data and technology could be used to support that sector, which could bring huge social and economic benefits. I wanted to say that I agree with that point.

The Convener: I will come back to you on that point before too long.

Catherine Murphy: I agree with Michelle Thomson. You might have heard of the term "mainstreaming", which is about integrating a gendered response into everything that Governments do. When that is not done as well as it could be, you tend to get prioritised projects on inequality and gender. Those projects are needed, but they become the fig leaf behind which Governments hide. That happens all over the world.

You need a twin track of investments in specific projects that are aimed entirely at reducing inequalities, such as, in Scotland, equally safe, which are great projects, and an integrated line through everything that you do. The situation with committees that Michelle Thomson described is very much evidence of that. I am very grateful to be invited to this committee, because we tend to get invited to the Equalities, Human Rights and Civil Justice Committee because that is where gender is dealt with. However, that is not the only place where those issues should be dealt with.

We also see that issue in the budget. The fairer Scotland statement is very good at articulating the priority projects that are specifically aimed at dealing with inequality, but the issue is dealt with separately from the core budget. What we really need is integration right through the core budget and through budget lines in a way that shows how money is being raised and spent, and how that is evaluated to show whether outcomes are being achieved and inequality is lessened through that investment and revenue raising. That is the key; it is not an easy task, but we can take incremental steps towards it all the time.

In response to Michelle Thomson's question, I agree that there is no area of policy where women are not impacted differently in some way from men, and they are often impacted more severely—for example, in relation to the cost of living in every feasible way. I recently read an article about the highly gendered nature of inflation and the higher inflation rate of many consumables and all sorts of what are called gendered goods.

Women are feeling the cost of living crisis at every possible level; the squeeze is felt in already predominantly low incomes, part-time work, care responsibilities and the gender pay gap. On top of that, inflation is highly gendered. I completely agree with Michelle Thomson.

Polly Tolley (Citizens Advice Scotland): I thank the committee for having me along. Catherine Murphy speaks passionately about the issue, and we fundamentally agree with what she says, but I want to broaden it out in relation to consideration of the national performance framework outcomes and driving that approach through the entire budgeting cycle.

We are keen to see true consideration of the delivery of outcomes for people and communities in budget setting, tendering and all the different facets of spending money. We believe that that could assist us to address some our fundamental issues as a society, whether in relation to gender inequality or income inequality. This is my ask of the committee: as well as taking that gendered approach, please think about how the NPF will be driven forward through the budget-setting process

The Convener: I am sure that Catherine Murphy would agree with that.

We will move on, because time is marching. The point that Ross Greer made is very pertinent here. If the Scottish Parliament was to agree to many of the increases in taxation, they would have to be implemented from April, because we would have to do that under the Scotland Act 1998. We face funding pressures of £1.7 billion in the current financial year. How do we deal with those pressures given the financial straitjacket that the Parliament has?

Stephen Smellie: Politicians of all colours talk about priorities, and trade unions are no different. We all understand that we have a wish list that will not be delivered in April.

I absolutely agree with everything that Catherine Murphy said. My trade union is 75 per cent female, and we experience that all the time. We need to focus on the question of equalities, and climate change and the climate change targets that we have to reach also have to be core to what we do. However, as far as we are concerned, the priority at the moment has to be to enable people to get through the cost of living crisis, which means putting money in people's pay packets.

We recently had discussions with the Scottish Government and the Convention of Scottish Local Authorities about local government pay. We tried to get additional moneys from the Deputy First Minister and the First Minister in our late-night sessions to try to achieve what we refer to as a flat-rate outcome, whereby everybody gets the same. We did not get that, but we got a flat rate for everybody who is paid below £40,000, and the effect was that the lowest paid people in local government, who are predominantly female, were given a pay offer of a 10.5 to 11 per cent increase. They are currently being consulted on that.

That will not change the world for them—the amounts of money are not life changing—but the trade unions have prioritised saying that the money needs to go to those people who are in the greatest need, who are the lowest paid and are predominantly female. That has to be the priority. I know that the Government will be in discussions with every other part of the public sector and trade unions about pay, for example, but that needs to be recognised. We cannot continue to provide the services that we want to provide with poverty wages, so that needs to be a priority.

Beyond that, we need to prioritise anti-poverty measures. The Scottish Government and the Scottish Parliament have taken a lead on a number of things. For example, the provision of free period products is a great, world-leading measure that fundamentally addresses poverty, and the expansion of free school meals is another example.

I go back to the point that Catherine Murphy made about the care economy. We should not spend huge amounts on structural change that will not achieve any change to the services that are being delivered. On the proposal for a national care service, hundreds of millions of pounds will be spent on drawing that up and running another organisation. That is not a sensible approach at this point in time. Any money that we have for investment in care needs to be invested in care and not in infrastructure, moving the goalposts, or moving offices and transferring staff. That is something that we would say has to be sensibly dropped. It is not a priority. The priority is the delivery of care.

The Convener: Ross, you asked the initial question. Do you want to follow up on that?

Ross Greer: Yes. The national care service is a good example. I would maybe not share Unison's view on that, but it is a tangible example. However, there is a lot of other stuff in the submission that ticks the boxes that Stephen Smellie outlined as priorities, such as free school meals. I presume that Unison has a main focus on increasing funding for further and higher education not just in the interest of equity for students, but because there are substantial numbers of low-paid workers in those sectors.

How can we prioritise between different areas of spending that would all raise the wages of low-paid workers, lift children out of poverty and so on? We cannot do all the things at once. That is the issue that we have. Should free school meals, public sector pay, more funding for colleges or more funding for universities be prioritised? I realise that, in principle, in a utopian world, it should not be a matter of choosing between those things, but it will certainly be a matter of choices in the next few years. We will have to make the choices, but I am keen to know what the trade union movement's priorities would be.

Stephen Smellie: I am tempted to say that that is your job and that is what we elect you for, but I will have a stab at answering that.

Our priorities are for people to be able to cope—to heat their homes and buy food and clothes for their kids. Pay is not just about pay for workers; it relates to how our people right across the spectrum survive. As I said earlier, there is also a knock-on effect from the economic impact of people spending money locally, which generates economic development elsewhere in the economy. We cannot get away from that fundamental. Workers need to be paid at an appropriate rate, and when inflation is heading towards whatever sky-high rate it is heading towards, the Government has a responsibility to say, “Right, we need to enable people to do those things.”

10:30

The other aspects are all parts of that. We should talk more regularly about the social wage—things such as free school meals and free prescriptions. As I said, we go to lots of meetings down south, and we have Unison members down south coming to the union and saying that they cannot afford to pay for their prescriptions. In Scotland, we do not pay for prescriptions, which is a really important thing.

Where the priorities should lie in all of that is a difficult one. I do not envy the Parliament its difficulties in that regard, but the priority could be a combination of prioritising pay and looking at ways in which we can raise additional income. I should have said earlier that we could, for example, increase the council tax take without primary legislation by increasing the number of bands. I think that there has been a consensus about changing the council tax for many years, but we have never got round to doing it. We hear that it is too difficult, but I am not sure what the reasons are. We should continue that work, but in the short term there is no reason why we could not introduce additional bands so that people in bigger houses and properties pay a bit more. I cannot tell you off the top of my head how much that would bring in, but it would bring in some money.

The priorities are a combination of ensuring that people do not go into poverty so that they do not starve, they can heat their houses and all the rest of it, along with looking at how we can increase the pot so that the choices may be less difficult.

The Convener: I now have five people who are keen to comment. I will take people in the order in which they indicated, and Clare Reid will be first.

Clare, in the section of your submission on digitalisation, something jumped out at me on the subject of how money could be saved in the public sector. You say:

> “It has been estimated that Scotland's health and social care data could be worth £800m every year, and deliver an estimated £5.4bn in savings for NHS Scotland—38% of its current budget and three times its predicted budget shortfall by 2025.”

The sheer magnitude of those figures leapt out at me. Given that two thirds of the NHS budget goes on staff costs, I am struggling to see where a 38 per cent budget saving could be made. Can you tell me how that could possibly be delivered, over what timescale, and what the implementation costs might be, as well as making the comments that you are keen to make?

Clare Reid: I will take that point first and then comment on prioritisation. Last year, we undertook quite a big piece of policy work in conjunction with The Data Lab, the University of Strathclyde and the healthcare sector to look at how health and social care could benefit from better use of data and technology. The report is called “Mind the Gap”, if anyone wants to look it up. I think that it was circulated in Parliament. That work started to look at what we could achieve if we really embraced data and digital in both the health and social care sectors. The figures that you referenced come from two UK studies and, although I appreciate that they are broad assumptions, we applied the same assumptions.

Work was carried out by Ernst & Young and by Dell to look at potential social and economic benefits from changing the ways in which we use data and technologies. Some of the social benefits that they estimated were around, for example, reducing the number of falls that people have.

Another example that was given was about using technology to predict when someone might have an asthma attack and the consequences of that for the person and the healthcare system.

As well as social benefits, economic benefits were calculated from thinking about how technology could be used either in buildings or in the delivery of healthcare. That work also included reducing the number of sick days both in the wider workforce and in the health and social care workforce.

The bigger number, which we apportioned to Scotland according to share of population, was really about all the different ways in which data could be used. That stretches from making buildings and facilities in health and social care as—

The Convener: The £5.4 billion a year is across society and the £800 million is specifically for the NHS. Is that right?

Clare Reid: No—actually, it is both. The £800 million was an estimate of the economic and social benefit from investing in data. Up to £5 billion of savings were made from applying data and technology right across health and social care. That work covered, for example, the estates, the upskilling of workers, how technology might be used, the creation of a single patient record and the potential commercialisation of anonymised patient data. Working with academics and other experts in the area, we looked at all the opportunities for improved patient outcomes and a transformed health and social care system, and one of our recommendations was that a transformation fund be set up to enable some of that innovation to happen at pace.

The Convener: Over what period could that be implemented? A lot of people have said to us, including in last week's evidence and in the submissions for this week, "If you give us money to invest in X, Y or Z, we'll be able to deliver such-and-such savings in five or 10 years." Although we would be keen on that sort of preventative agenda—indeed, John Mason and I were discussing all of this on the finance committee 10 years ago—the problem is how we deliver in the financial year 2023-24, which is staring us in the face and is only a few months away. We want to invest more, but there are real issues about what we disinvest from in the meantime in order to free up those resources.

Clare Reid: Our view is that the health and social care data strategy, which is being considered at the moment, is a good place to start. The people who are looking at that will have both quick wins and longer-term items on their agenda that they can implement. However, I imagine that, if you talk to any general practice surgery or health board, you will find that they have things in which they could invest and which they are aware could very well make savings now. It would be interesting to think about that transformation fund as something that could come from other budgets but which would be used to generate and pilot change in the short term.

On the wider point about priorities—

The Convener: Before you move on to that, on what timescale would we be able to deliver such savings?

Clare Reid: Realistically, we would be looking at a five to 10-year time horizon, but that is not to say that we will have to wait for five to 10 years for change to happen. If we make a start, we can start to affect budgets.

The Convener: Please carry on with your other point.

Clare Reid: I am conscious of the time, but I want to make a point about priorities. Stephen Smellie talked about increasing the pot. The SCDI includes not just businesses but other organisations, councils, universities and colleges and so on. In fact, we represent the whole of civic society, and ultimately we want to get to the same place—a place where we have good public services and a wellbeing economy for Scotland. I wanted to make that point up front. What we might slightly disagree on at the moment is how we can get there. We would encourage the committee, in addition to thinking about how we spend the pot and reprioritise things, to consider how many of the things that we are spending money on will make the pot bigger in the long term.

When we looked at the figures, we were concerned about the 16 per cent reduction in funding for enterprise, tourism and trade and the 8 per cent reduction in funding for colleges and universities. Those are critical sectors that create economic growth and allow us to increase tax revenues over the long term, not just from high earners but from all earners.

We are hearing from our members that the Scottish Government has a lot of good plans and strategies on the books, and the national strategy for economic transformation is a good example of that. We took a year to work with our members to develop our blueprint and put some of the ideas forward, and we have spent the best part of the past year working with Government and making suggestions on where change could happen and which policies could be taken forward in the national strategy.

Our members have also asked us about the energy strategy, the good food nation strategy and so on. There are great plans that could transform the Scottish economy, generate new high-paying jobs and attract investment, but they need support. Our concern is that we need to deliver on the national strategy for economic transformation if we are to create the long-term revenues for Scotland that we need if we are to have the public services that we want.

Our plea is therefore that, when it comes to thinking about the prioritisation of spending, we need to think about investment in infrastructure, particularly for rural areas; investment in the forthcoming innovation strategy; investment in the export plan; and investment for universities and colleges in order to meet the skills needs that we have and create new well-paying jobs in Scotland.

Daniel Johnson: I have a question for Stephen Smellie but, on the previous point, I think that one of the key issues that we have at the moment relates to how not just the private sector but the Scottish Government conceives of productivity and growth. They view public services almost as not being part of the economy, but the fact is that such services make up about 45 per cent of the economy and they are—or, at least, they should be—driving innovation and productivity. They should be the foundation for growth. One of my criticisms of NSET is that its vision of productivity and growth does not have a clear space for public services and the public sector.

Stephen, I completely agree with you about public sector pay. In particular, the very long-term squeeze on local government has had a direct impact on the pay of some of the most critical workers. We are now facing a real crunch, but I do not think that we are discussing it actively enough. The public sector pay bill is about £21 billion out of a total budget of £44 billion, and we have had vague suggestions from the Scottish Government that it wants to reduce public sector head count to pre-Covid levels.

To be blunt, I am really worried that there is a big crunch coming and that people are not being honest about it. There is, at the very least, one genuine challenge that needs to be met: people in the public sector need pay increases if they are to pay their bills, but that sort of pay bill at the macro or high level makes things difficult. Does Unison have a view on that? Do you share my fear about the lack of frankness on the things that are being considered with regard to public sector head count?

Stephen Smellie: To an extent, those things have not been particularly hidden. The finance secretary has talked about a 30,000 reduction in head count to take us back to pre-Covid levels. Those 30,000 jobs are predominantly relatively low paid and, because we are talking about local government, they are predominantly done by females. Any economic development to create jobs would be undermined by the loss of jobs in that area.

I think that that reduction would be a real mistake. As you said, and as we have always argued, the public sector is a driver of the economy. Indeed, in some areas, it is the only main employer—it is the school, the local hospital or doctor's surgery and so on that create jobs in local areas, and if we start to chip away at that, we start to undermine the local economy. South Lanarkshire, where I come from, has a large rural area, and only the school and the local health centre provide real jobs; the local shops and so on have closed because people are now doing their shopping elsewhere or online.

We cannot squeeze the public sector in this way. It frustrates me that people talk about productivity in the public sector as if we have not thought about it before. I have been in local government for a long time, and I remember all the different management schemes—best value plans, lean working and so on—that were brought in to try to squeeze more out of a reduced workforce. There is nothing more to squeeze in local government. My colleagues in health will say the same, and further education has been squeezed really hard over the past few years.

People continually want more, but we are continually given less funding for it. That cannot continue, and we are at a crisis point in a whole range of areas. For example, people are talking about the growing care demands, but the fact is that we cannot recruit enough people into that sector. I am on the bank for care, and I am getting emails every day asking for someone to cover a shift in one of the local authority homes. That is the state that we are in.

It is the same with early years provision. We all understand the need for excellent childcare, but we are struggling to recruit and retain people in that field because the wages are not great. In the language of the public sector, productivity is just about squeezing more out of fewer people, and that situation cannot go on.

We need to invest in public services in order to create the safer, better and more equal communities to which we all aspire. There is no way round it. If we undermine public services in the way that has been done for many years now with the squeeze on public sector funding, the economy will start to crumble, because the social infrastructure is just not there to sustain those in work who will otherwise have to look after their parents, their kids and so on. This sort of thing is integral to the future.

10:45

The Convener: I am sorry, but so many people now want to speak and I am trying to get in as many folk as possible. My next question is for Aaron Hill. The SFHA written submission states:

“we believe that funding for affordable housing should be prioritised alongside health and social care and social security spending in the coming budget.”

I think that there is a lot of sympathy for that. The submission goes on to say:

“Investing in high quality, affordable housing should be understood as preventative spending which saves money in health and social care, social security and other systems”.

It also calls for

“increased investment in advice services”,

which no doubt was music to Polly Tolley’s ears. However, how do we do that? How much additional investment are we talking about? Are we increasing investment by 1 per cent, 5 per cent or 10 per cent? What do we deprioritise to be able to afford that, given the financial straitjacket that the Scottish Parliament faces?

Aaron Hill (Scottish Federation of Housing Associations): To go back to some of the earlier points on prioritisation, I agree with colleagues who have said that the budget should absolutely prioritise dealing with the cost of living crisis. However, there are short and long-term measures for doing that.

On the short-term measures, the SFHA has over the past few years distributed, on behalf of the Scottish Government, the social housing fuel support fund element of the fuel insecurity fund. That pot has been about £2 million every year for the past three years and, generally, in previous years, it has been spent in around four to six weeks. This year, we had £2 million-worth of bids in 48 hours, and £6 million-worth of bids in the first week, before we had to close the fund. We will not be able to meet all the demand from housing associations to deliver on the immediate-term issue of the cost of living crisis when it comes to fuel.

On the short-term issues, we need more investment in direct support for people to pay their bills. Housing associations do—

The Convener: Yes, but if the budget is shrinking in real terms, where should that come from? Should it come from additional taxation, as we have discussed, or from other budgets—and if so, which? Alternatively, should it be a combination of the two? The committee faces this issue every year, when everybody suggests that we should have more money now and for investment in the future, but the difficulty is the financial straitjacket that we are in. Therefore, we are looking for real suggestions on how we can prioritise as well as on what we deprioritise.

Aaron Hill: I absolutely recognise that challenge. I am not going to tell Government departments in other policy areas what should be deprioritised. However, the immediate and emergency response needs to be the number 1 priority for revenue funding right now. Housing associations work tirelessly to support tenants who are facing the cost of living crisis and who are in poverty. As Stephen Smellie has just described, we are seeing the social infrastructure around us crumbling. For example, the food pantry network and advice services are really struggling to provide the services that are needed, so we need to see an element of support for that.

On the longer-term response to the cost of living crisis and some of the points that you raised about developing homes, there is a target of 110,000 homes over the next 10 years but, unfortunately, we are not in a position to deliver that, given the current economic crisis. Over the past 12 months, the cost of building homes increased on average by 17 per cent across our members. Over the past two years or so, the cost has gone from £160,000 per unit to more than £200,000 per unit in most cases. That puts the viability and longevity of contractors at local level under enormous pressure, and we are really concerned that, if there is not sufficient investment now, the problem will only grow.

When we talk about prioritisation, we talk about outcomes, and the outcomes from developing affordable homes are huge. They include the savings that people make individually—we know that the cost of renting a social home is around half the cost of renting a private home. There are also enormous health and wellbeing and economic outcomes from developing homes, but that could grind to a halt over the next few years. The outcome from the UK Government’s intervention over the past few days has devalued the pound, which will only make building more expensive. If interest rates go up, that will make building more expensive for housing associations.

Ultimately, we face a crisis in the development of homes, which will lead only to more difficult choices further down the line. If we do not build the homes that we need, the cost of the health service will increase and the number of people out of work will increase. I completely accept that the Scottish Government faces a straitjacket, but it is about prioritising spending that has long-term outcomes. Others have spoken about using the outcomes in the national performance framework as the lens through which we view our investment, including long-term investment. Investment in decarbonisation in relation to new and existing homes is important. We probably cannot go into that in detail today, but that is what we need to drive.

The only other point that I would make on the financial implications of the policy development over the past few weeks is about the Scottish Government's intervention on rent. As we know, social rents in Scotland are around half of those in the private sector, and they are lower than anywhere else in the UK; indeed, that has been a key driver in poverty being lower in Scotland than anywhere else in the UK. Ultimately, that has been done without Scottish Government intervention. Having worked in the social rented sector in Wales and other parts of the UK, I have found that Government policy often drives the unintended consequences of rent increases, and there is a real concern about what the intervention from the Scottish Government will do to investment.

I can give one example of the long-term financial implications of that, because it is really important. Ultimately, the bill as proposed will not prevent housing associations from putting up their rents on 1 April. However, what it does to lender confidence is enormous. One housing association that I have spoken to in the past couple of weeks was due to refinance a £90 million facility. Around half of that was for refinancing what it already has and around half was for developing new homes. The half that was for developing new homes will now not happen because lenders have been completely spooked by the Scottish Government intervening in rent policy for the first time.

When we talk about long-term consequences, it is the unintended consequences that we need to explore. When it comes to rent and the cost of living crisis, housing associations will always prioritise affordability for tenants. We were all in the position of accepting that any rise on 1 April would be below inflation, because it is simply not acceptable to put rents up by the level of inflation, given how high it is. That would have had an impact on the business plan, but unfortunately, the intervention over the past few weeks has made that challenge even greater.

The Convener: Given that a significant proportion of rent comes from housing benefit, what are the Treasury implications for funding coming to Scotland? What will be the impact on Scottish housing associations and local authorities?

Aaron Hill: We do not have exact figures but between 65 and 70 per cent of rent to housing associations is paid through housing benefit. When the UK Government cut social rents in England in 2015, the Institute for Fiscal Studies did an important piece of work that demonstrated that there would be almost no benefit to the tenants and that almost all the benefit would be felt by the Exchequer. I do not have figures in front of me, but I assume that the outcome here would be similar.

Scotland will lose out on investment in housing and communities as a result of the policy. The unintended consequence of the policy is that the Treasury in London will gain and Scottish housing associations, tenants and communities will lose out.

The Convener: Thank you.

John Mason: I want to pursue that, because we have not touched on housing until now. What would be the practical impact on housing associations if the freeze continued beyond March and they had less income? Would you cut back on maintenance and things like that?

My other point is on capital expenditure. What is your thinking in that respect? We are going to build more houses, but should we be doing more on the retrofit side to try to improve heating costs and so on? Have we got the right balance between retrofit and building new houses? The Passivhaus approach comes into that; I have such buildings in my constituency, and they have been built to a very high standard, although I think that they were more expensive. How do we strike the right balance?

Aaron Hill: On your first point, the response will vary from housing association to housing association depending on their individual positions. Given the difficulty of developing homes at the moment, several associations are taking decisions to pause their development programmes or to consider doing so over the next few months. Development will be the first place that people will look.

Inevitably, once the impact of any rent freeze or rent cut—whatever it looks like—takes hold, it will have an impact on maintenance. In that respect, the example of England and what happened following the 1 per cent rent cut is instructive: we saw planned maintenance budgets drop off a cliff and job losses. Community investment—the social benefits of housing associations—also suffered, and it has never really recovered. We might see something similar here. I do not want to be alarmist—we were looking at modest and moderate rent increases this year anyway and would have had to manage the situation—but there will be long-term consequences across the business plan.

As for striking the right balance, we share the Scottish Government's ambition to do both things. That requires huge amounts of investment, huge amounts of work on the supply chain and huge amounts of thought around how we get the balance exactly right. At the moment, the worry is that, because the homes that we build now will provide additional financial capacity across the business plan in future to do more retrofitting, if we do not build them, our capacity to borrow more in future to deliver on the decarbonisation agenda will become constrained. We need a fine balance of both, but if we stop developing now, decarbonisation in the future will become harder.

John Mason: My constituency has a whole load of sandstone tenements, which are incredibly difficult to retrofit. I accept that it is expensive, but I sometimes wonder whether we should do more of it.

Aaron Hill: Ultimately, we need to do more. We are in a phase where the Scottish Government is reviewing the energy efficiency standard for social housing. The proposed second version of that standard probably did not go far enough on net zero and was not closely enough linked to the ambitions on fuel poverty, which need to be aligned more closely in the standard. There is a bit of work to do in order to get that right.

It is really important to get the fabric stuff right, and that will be really difficult for some tenement buildings. People are talking about heating solutions such as heat pumps and district heating, but they will not work in such buildings unless we get the fabric right in the first instance.

We need a clear sense of direction about what the standard will be, following the Scottish Government's review. As part of that, we need concerted work on what the right funding mix will be. With home building, the split is broadly 50 per cent Government funding and 50 per cent private lending, but that will probably not balance out the same way with retrofit. We have not quite worked out the full cost and the right financial mix.

Three actions are needed to get us there so we can do much more. We will probably need more Government grant funding, and we will need a concerted effort to reduce costs, perhaps through collective procurement and a much more national retrofit plan. We will also need to unlock financial constraints on housing associations. The sector will probably not be able to absorb by itself all the lending that will be needed, because the retrofit bill will be far greater than the bill that we are paying to develop homes.

The national energy agency might provide a solution. Could we use it as an off-balance-sheet lending vehicle? The Future Generations Commissioner for Wales has done really interesting work on how an energy service company might be used in such a way.

There are solutions, although we are not quite there yet. If we focus on the fabric-first approach now, that will set us up for when we get a bit further down the line.

Alison Douglas: On the convener's point about the consensus on getting upstream and preventing problems in the first place instead of waiting until they become expensive to turn around, I think that we have underestimated the potential for public health interventions that cost little or nothing to the public purse to prevent non-communicable diseases, which claim 83 per cent of all the lives that are lost in Scotland each year.

Last month, a new alliance—the NCD alliance Scotland, which involves a group of 20 charities and royal colleges—published a list of eight asks of the Scottish Parliament and the Scottish Government. The asks are for legislative changes to control the price and availability of tobacco, alcohol and unhealthy food products and how they are marketed. The British Heart Foundation has estimated that about 10,000 lives could be saved each year if we reduced the consumption of those harmful products.

There is a tendency to think that such prevention is a long-term endeavour but, if we look at alcohol-related deaths, alcoholic liver disease can kill somebody very quickly. In the profile of recent deaths, we saw in 2019 a 10 per cent reduction in alcohol-specific deaths, 90 per cent of which are from alcoholic liver disease, but the figure increased in 2020 by 17 per cent. That shows how quickly levels of harm can be affected by changes in consumption levels and drinking patterns.

Preventative actions have a short-term benefit as well as a longer-term benefit. In terms of public spending, they cost little, if anything, to implement, as I have said.

Ross Greer: I want to jump back to something that Clare Reid said a couple of moments ago. She listed areas, particularly in enterprise and skills, where public spending will be reduced over the next couple of years. I do not think that anybody will pretend that that is a good thing, but the SCDI is also against any new business taxes and opposed not only to increasing income tax but to having fiscal drag through keeping income tax rates as they are. If there are areas where you are looking to increase spending and there is new revenue, the conclusion must be that there are areas of public spending elsewhere that you would deprioritise. Could you expand on that a little bit? Otherwise, I am not sure how to resolve your tax position and the spending priorities that you have outlined.

11:00

Clare Reid: We have already touched on one area of health and social care in which we have identified potential efficiencies. Although we recognise that there are pressures on that sector, that is one area in which savings could be made. The size of the health and social care budget relative to the cuts in other budgets that are proportionately much smaller suggests that some balancing could be done.

Ross Greer: Thanks.

I have one very brief follow-up question for David Lonsdale. David, you made an interesting remark about your opposition to income tax rises for those of modest income. Can I push you a little bit and ask you to define “modest income”? Are we talking about the cleaners on 18 grand whom Stephen Smellie mentioned, somebody on an average salary in the mid-20s or folk on 40 grand who, with fiscal drag, are heading towards being hit with the high income tax rate?

David Lonsdale: We have not put this explicitly in our budget recommendations paper, but we were talking about those on the bottom two or three rungs of the Scottish income tax bands—in other words, the starter, basic and intermediate bands.

In our budget recommendations paper, we have put forward a number of suggestions for saving money, and I would like to pick up on that because I did not get a chance to respond to what Alison Douglas said earlier. We suggest that the committee give short shrift to the idea of putting an additional business rates levy on retailers. However, I am conscious of time, so I am happy to follow up, in writing, why we do not support that notion.

The Convener: Why do you not support that notion?

David Lonsdale: Partly for the reasons that I articulated earlier. Retailers are already paying a poundage rate; many are paying the higher property rate on top of that and, on top of that, many are paying the business improvement district levy, too. In Alison Douglas’s written submission, she said that an additional business rates levy would be akin to the large retailers levy that was enforced in the early part of the last decade. If I remember correctly, receipts from that cost a lot of money, and they went into the general kitty, not into any specific pot for preventative spend.

The submission also mentions transparency in public spend, and I think that Alison Douglas quoted a figure of around £148 million that had been spent on alcohol and drugs harm reduction. However, the submission goes on to say that it is unclear what that money has been spent on and that

> “it is difficult to say where further investment is needed”.

If money is already being spent on reducing alcohol-related harms, then—based on her analysis—the focus needs to be on ensuring that it is well spent instead of on bringing in new, additional taxes.

The Convener: I will bring in Alison Douglas in a few minutes, but I should let you know that the time is 11 o’clock and I do not want this meeting to continue for much longer. I am therefore going to let Polly Tolley and Catherine Murphy answer and then I will let Alison Douglas respond to David Lonsdale. We will then wind up this section of questioning, after which I will ask a brief question about transparency.

I do not want to put witnesses on the spot, so I give all of you due notice that I will be asking you what you would prioritise if there was one thing that the Scottish Government could do in the 2023-24 budget. What one thing—not two, three or four things—would you prioritise above all else in the forthcoming Scottish budget? Please think about what that would be and be ready to articulate it after we have a brief discussion about transparency.

Polly Tolley: That will be really challenging. As I have the floor, maybe I can get two things if I ask for one now.

The Convener: Do not ask for anything yet—and you are getting one thing, and one thing only.

Polly Tolley: Aaron Hill has already articulated a point about funding for advice services. Given that our advisers are giving 20 per cent more advice than they did during the pandemic, and we are not even into winter yet, Citizens Advice Scotland is facing a crisis, and it is happening because of a long-term pattern of poor funding.

Convener, you have said that, instead of our thinking about what to prioritise, we should think about how we prioritise. In that regard, you make a good point about transparency. If we do not have transparency about outcomes and where money is being spent, it is really hard to decide where to place that money to realise best value.

The one thing that we would ask is that you think about building funding systems that allow for transparency and for a focus on outcomes and preventative spend. That is our ask of the committee: to push forward with that agenda and with transparency, but to have a relentless focus on outcomes, too. That is the only way in which we are going to overturn some of the issues that we have discussed today.

The Convener: Thank you. I note that, in your submission, you have said:

> “For vulnerable clients with complex needs there is simply no substitute for local, face to face advice in person from a trusted, empathetic adviser”.

Despite the push for digitalisation, I am 100 per cent in agreement with that, not least because I was a Citizens Advice volunteer way back in the 1980s.

Before I let in Catherine Murphy, I must give Liz Smith's apologies, as she has had to leave the meeting to attend a funeral.

Catherine Murphy: I want to bring together a few things that have been discussed so far and use them as an example of the necessity of gendered analysis and equality impact assessments.

On the point that Stephen Smellie and others have made on local authority cuts or efficiencies, cuts to childcare, education, social care and transport are going to impact disproportionately on women's ability to participate in the economy. Women are not just recipients of support—they are drivers of the economy. Those cuts should be analysed for their impact on women, because there is a risk that making them will be a false economy, given the limitations that they will place on women's participation in the economy in the future.

Another example of that is digitisation. I am entirely supportive of that agenda, but there has to be some analysis of the jobs that will be lost as a result. Often they are the lowest-paid jobs, and often they are done by women. There is also the question of how people on low incomes—and women in particular—access the benefits of digitisation. These are all great things to talk about, but the fact is that we need that analysis.

You have also asked about what should be prioritised and what should be cut. At Engender, we have not done a huge amount of work on the specifics of the tax system, but it is quite clear that you should be working on safeguarding the minimum core human rights standards for the most vulnerable. The Scottish Human Rights Commission and the Scottish Women's Budget Group have done a lot of really good work on how to maximise available resources and on what can be done, within the limitations of Scotland's tax system, on local government and council taxes and to address tax evasion. I cannot claim that work, as it is not Engender's, but I encourage the committee to look at what the Scottish Human Rights Commission has done in that area.

The Convener: Thank you. Before we move on to transparency, I will bring in Alison Douglas.

Alison Douglas: As I have mentioned, the additional revenue that retailers have accrued as a consequence of minimum unit pricing would, according to the business and regulatory impact assessment, amount to £180 million over the past four and a half years. It is not, therefore, just a question of some crude comparison with the public health supplement—there is additional money that the retailers have benefited from as a result of minimum unit pricing.

We believe that there is proof of concept of the effectiveness of minimum unit pricing in reducing consumption. When we reduce consumption, the benefits are disproportionately felt in the most disadvantaged groups. That means that we have an opportunity to continue to reduce health inequalities by maintaining minimum unit pricing. In fact, we believe that it needs to be uprated to ensure that we optimise the benefits.

As for the revenue that would come from an alcohol harm prevention levy, we believe that there should be greater transparency in how that money is utilised and that it should go towards alcohol treatment. We see a massive alcohol treatment gap; even before the pandemic, alcohol services were inadequate. The last assessment, which is now almost 10 years old, showed that only one in four people with dependency were accessing treatment. Compared to that assessment, however, the number of people entering treatment has fallen by a fifth. There is, therefore, a big gap.

Although there has been significant additional investment, as David Lonsdale has alluded to, most of that has been earmarked for drugs. Although there is recognition from the Scottish Government that we have the twin public health emergencies of alcohol and drugs, its response to drugs has, to date, been far greater than its response to alcohol. We are not recognising that one in 15 of all deaths in Scotland is due to alcohol, and we need a proportionate response to that problem.

The Convener: I should say that my father died of alcoholism, so I am very sympathetic to some of your comments.

We move on to the issue of transparency. The witnesses will recall question 8 in our call for evidence, which asked:

> "How has the Scottish Government reflected its commitment to fiscal transparency in the Spending Review and how can it best ensure that spending in the Budget 2023-24 can be properly identified and tracked?"

Some people did not answer that question in their submissions, but I note, David, that you said, "No comment." Why was that?

David Lonsdale: It is just not our area of expertise and we do not have member feedback on it. With hindsight, perhaps, I should have asked our members for their views on that.

The Convener: That is fair enough—and it was a succinct answer. Does anyone else want to comment on transparency?

Clare Reid: I will make a quick point, but first, if I may, I want to make a point in relation to the discussion on digitisation and productivity. I want to make it clear that we hope that our vision for the digitisation of public services is a positive one that will allow every employee in public services to have the tools that we need to do our jobs. After all, we are all sitting here with our phones, laptops and what have you. We also hope that it will allow service users to receive that service in a way that suits them. It is about choice, and I hope that that has come across.

The Convener: There is an issue with digital exclusion, but we will not go into that.

Clare Reid: I totally agree. It is also about designing services in such a way as to ensure that people are not excluded.

As for the question of transparency, we have recommended that a prosperity impact assessment be carried out. It does not exist yet, but we are happy to contribute some thoughts on what it might look like.

To go back to my earlier points about thinking about spending, I remember that, during the Covid pandemic, we talked about the four harms to the economy, health and so on. We must not lose sight of that. I hope that in today's discussion we have tried to make the point that we need to think about how we are going to grow the economy in the long term, and we encourage you to think about assessing spending proposals in the context of not only outcomes but their contribution to Scotland's long-term economic prosperity.

The Convener: Thank you. Are there any other points on the issue?

David Lonsdale: On the broader point about transparency, one of the upsides of the current arrangement is that, presumably around November or December, the finance secretary will make an announcement on tax rates. That will give employers and individuals a few months to get a sense of what they have to do to make that happen, to make that work and to work out the budget implications for them. That is a good thing: we are in favour of having as much predictability and certainty as possible. Therefore, if there were a shift to business rates being set by councils rather than ministers, there might be a risk of councils setting business rates when they set their own budgets for the year. As I understand it, that tends to be done around February, which is only a handful of weeks before the start of the new financial year. Anything that provides more predictability and certainty is a good thing.

I think that I am right in saying that, in the programme for government, there is a commitment to reviewing regulation. We hope that that will come up in the emergency budget review statement, which I assume will be in the next week or two, to provide as much certainty to firms as possible about not only what will be progressed with regard to devolved regulation but what will be paused or, indeed, jettisoned.

The Convener: The committee carries out pre-budget scrutiny and, through the evidence that we take from organisations and people like you, we try to influence that draft budget; we then scrutinise the budget over several weeks, including through debates in the chamber. In the UK, however, the chancellor just stands up and says, "This is a budget." It is interesting to look at the different systems.

Does anyone else want to comment on transparency?

11:15

Stephen Smellie: It is not my area of expertise, but my experience with workplaces is that the greater the engagement with the workforce, the better. Sometimes innovations and the solutions to problems are better found by engaging with more people. I appreciate that it is dead easy to say that, and that it is difficult to structure that sort of thing. However, there is a need for greater engagement. That has been partly been illustrated by some of our discussion here; ideas have been floated around the table, and you have, quite rightly, thrown them back at us by saying, "Aye, but what about X?" That kind of process is necessary.

From a trade union perspective, I think that greater engagement would be appreciated. I am sure that various stakeholders would want that. I am not sure how that could be manufactured or created, but the more open that we are in such discussions, the better.

The Convener: I could not agree more. I have worked in the third sector and the private sector; when I was in the private sector, there was a staff suggestion scheme—and it had almost no impact. It asked things like, "How can the company save money and do things better and better?" I suggested that the company should incentivise people so that they got a share of the savings. The company then introduced a scheme where employees could get up to 10 per cent of what they saved by doing things more efficiently; it was then absolutely inundated by suggestions, because there was a reward for the people making them. Obviously, they were not all implemented, but that incentive stuck with me.

Catherine Murphy: I just want to make a brief point about this. What we need in the longer term is better data on budget decision making. At the moment, you do not have access to good enough data, particularly—from my point of view—

equality-based data disaggregated by gender and so on. That means that you are not really able to track impact. For a lot of the decision making and the way in which it is aimed at addressing certain issues, the transparency of the through lines is not sufficient, because much of the time the data is not good enough to make decisions about impact.

The Convener: Thanks—that was very helpful.

Given that that topic has not set the heather alight, I will move on to everyone's number 1 budget priority. I ask for volunteers. Who wants to go first?

David Lonsdale: If I may lighten the point that you have just made, convener, I will say that, if the Government takes forward any of the suggestions for savings in our budget recommendations paper, we will be very happy to get 10 per cent of the savings emanating from that. It might help to pay for the tax increases that Alison Douglas wants.

Joking aside, I would note that our paper has six key recommendations, but I think that you have challenged us to alight on just one. On the basis that Mr Swinney might take forward some ideas on income tax, I will focus on something that will help keep down shop prices, which is to rule out an increase in the business rate in the coming financial year. That is our top recommendation.

The Convener: Thank you very much.

Catherine Murphy: I would suggest investment in women, particularly those on low incomes, as it will have a major return for society and the economy as well as build more resilient communities. We should do that through social security and through improving the social care system in Scotland. Also—and this is specifically in relation to the Finance and Public Administration Committee—you should ensure that the decisions that you make as part of the budget process do not have unseen consequences that will worsen equality.

The Convener: Thank you.

Clare Reid: Ours would be a broad recommendation: to ensure that the recommendations in the delivery plan for the national strategy for economic transformation are properly funded.

The Convener: Thank you very much.

Aaron Hill: If we want to deliver the target of 110,000 new homes over the next 10 years, we need to act now, so we need investment in affordable housing and the associated benchmarks to increase in line with costs.

The Convener: Thank you.

Stephen Smellie: I would suggest persuading the Government to drop its current proposals on the national care service and to invest the money directly in improving care, including introducing sectoral bargaining, which would address the issues in the care workforce and improve the situation for them.

The Convener: Thank you. That was very clear.

Alison Douglas: We would suggest an alcohol harm prevention levy on retailers to recoup the additional profits from minimum unit pricing. That would require only secondary legislation and would be quick and easy to implement.

The Convener: Thank you very much. Polly, you have the last word.

Polly Tolley: We would support any measures that get cash into people's pockets, whether that be direct cash support to people or through services such as ours, which support income maximisation.

The Convener: Thank you. That, too, was very clear.

I wind up the session by thanking all our witnesses for their helpful contributions, which we shall include in our report. We will be questioning the Deputy First Minister, who is also finance secretary at the moment, on the issues that have been raised when he appears before the committee.

11:21

Meeting continued in private until 11:59.

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