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Finance and Public Administration Committee

Tuesday 2 September 2025

Session 6

The Scottish Parliament
Pàrlamaid na h-Alba

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FINANCE AND PUBLIC ADMINISTRATION COMMITTEE

23rd Meeting 2025, Session 6

CONVENER

*Kenneth Gibson (Cunninghame North) (SNP)

DEPUTY CONVENER

*Michael Marra (North East Scotland) (Lab)

COMMITTEE MEMBERS

*Ross Greer (West Scotland) (Green)
*Craig Hoy (South Scotland) (Con)
*John Mason (Glasgow Shettleston) (Ind)
*Liz Smith (Mid Scotland and Fife) (Con)
*Michelle Thomson (Falkirk East) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Jennie Barugh (Scottish Government)
Professor Francis Breedon (Scottish Fiscal Commission)
Richard McCallum (Scottish Government)
Claire Murdoch (Scottish Fiscal Commission)
Shona Robison (Cabinet Secretary for Finance and Local Government)
Professor Graeme Roy (Scottish Fiscal Commission)
Professor David Ulph (Scottish Fiscal Commission)

CLERK TO THE COMMITTEE

Joanne McNaughton

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament

Finance and Public Administration Committee

Tuesday 2 September 2025

[The Convener opened the meeting at 09:30]

Scottish Government and Scottish Fiscal Commission (Publications)

The Convener (Kenneth Gibson): Good morning, and welcome to the 23rd meeting in 2025 of the Finance and Public Administration Committee. Our first item is an evidence session with the Scottish Fiscal Commission on its June and August 2025 publications.

I welcome to the meeting Professor Graeme Roy, chair; Francis Breedon, commissioner; Professor David Ulph, commissioner; and Claire Murdoch, head of fiscal sustainability and public funding. I have to say that entire swathes of the Amazon had to be devastated to produce these documents for old lags like me, who have to rely on paper. I will probably drown in it from time to time.

You have an opening statement, so please fire away, Professor Roy.

Professor Graeme Roy (Scottish Fiscal Commission): Good morning, and thanks for inviting us to speak with you today. Last week, we published two reports, including our latest fiscal update, which summarises how recent developments in the economic and fiscal outlook have affected the Scottish budget this year and how they might affect the upcoming budget and spending review. Following the committee's recommendation, we intend to make our late August update a regular feature of our annual publications.

Looking back to June, the Scottish Government's medium-term financial strategy set out the scale of the challenge that the Government faces in balancing its budget. Based on current trends, the Government expects spending to exceed available funding by £2.6 billion for day-to-day spending by 2029-30, and by £2.1 billion for capital spending. That is equal to 4 per cent of planned day-to-day spending and 23 per cent of capital spending. Just as importantly, the Scottish budget also faces long-term pressures beyond the five years covered by the MTFS, as we have highlighted in our work on fiscal sustainability.

Our fiscal update sets out some developments that took place during the summer. Since June, the United Kingdom Government has made some policy changes that might affect future Scottish budgets. The UK welfare policy was changed during the summer when previously planned measures to restrict eligibility for personal independence payments were removed from the legislation that was passed by the Parliament in July. The latest social security block grant adjustment forecasts were based on those policies being implemented. The policy change is estimated to reduce the Scottish Government's funding by £0.4 billion by 2029-30. That reduction will likely be reversed when the Office for Budget Responsibility produces its next forecasts, thereby increasing the funding that the Scottish Government receives for social security.

An additional commitment has been made to allocate 5 per cent of gross domestic product to defence spending by 2035. The effect of that on the Scottish Government's funding position will be determined by how that is funded by the UK Government.

Income tax outturn data for 2023-24 was published in July, showing strong growth—faster than in the rest of the UK—in Scottish income tax revenues. That growth contributed to a positive fiscal final income tax reconciliation of £406 million, to be applied in the next Scottish budget. Our latest forecasts and those of the OBR suggest, however, that negative reconciliations will apply to the next couple of budgets.

We now have pay deals agreed for most of the public sector workforce for the year, and most of those deals also cover next year. We note that the pay deals that have been agreed so far have exceeded the Scottish Government's public sector pay policy.

As you know, the Scottish Government has committed to publishing a spending review alongside the budget. That will determine the trajectory of public spending in the next parliamentary term. The spending review provides an important opportunity for the Scottish Government and Parliament to address immediate budget pressures and, crucially, long-term fiscal sustainability challenges. In June, the Scottish Government identified broad areas of efficiency and reforms in the public sector that it plans to use to close the fiscal gap. Except for its commitment to reducing the size of the workforce, however, the detail of how those efficiencies and reforms will be achieved has not been included. The spending review gives the Scottish Government an opportunity to set out in detail how it will deliver the budget-saving measures that were presented in June.

Finally, the spending review process is as important as the numbers themselves. It will be crucial for the Government to set out specific measures and targets for the public sector workforce as well as public sector reform, how its spending plans will deliver key policies in areas such as climate change and child poverty, what its plans are for areas of spending that will be scaled back, and what its long-term plans are for infrastructure investment.

We are happy to answer questions on our reports.

The Convener: Thank you. There is a huge area of potential questions, some of which I will probably leave for the Cabinet Secretary for Finance and Local Government, who will be here after you.

You spoke about achieving a reduction in workforce, which your fiscal update report notes would require

"a significant departure from recent trends."

I understand that, since 2019, the public sector workforce in Scotland has increased by 47,100, of which around 20,000 are health and social care workers. How can that reduction be achieved? The Scottish Government is talking about a reduction of 0.5 per cent a year. That does not sound like much, but it amounts to about 12,000 people.

Professor Roy: I will make some general comments and then invite Francis Breedon to come in; David Ulph will probably want to chip in, too. The first point to make is that, in essence, we are waiting to see the detail of how the reduction targets will be implemented and where the focus will be. For example, the Government has talked about protecting front-line services, so there are questions about what we mean by "front-line services" versus other services.

There is also a question about which areas of public sector employment will be targeted for scaling back. You are right that we have seen significant growth in the devolved public sector workforce over the past few years. The total figure for the Scottish devolved workforce is up to or over 250,000, but 160,000 of that is made up of the national health service workforce. If you choose to prioritise the NHS, you are not going to scale back that workforce, so you will then need to find 0.5 per cent every year—up to 12,000 jobs—over the period that the Government is talking about from a much smaller proportion of the overall budget, which means difficult choices about what you prioritise and how you structure your public sector services to deal with what will be a significantly smaller workforce.

The Convener: In your update, you talked extensively about forecasting, including issues such as forecasting error. For example, we can consider unemployment and employment, on which the Scottish Fiscal Commission has proved itself to be more accurate than the OBR. You said that that is because your measure is based on real-time information and data, and we know that there are issues with the labour force survey. You said that you are developing a joint approach with the University of Strathclyde to create a new regional model for short-term forecasting. Can you talk more about that?

Professor Roy: I will go into that quickly. For our employment and earnings forecasting, we use real-time information data that is based on information from His Majesty's Revenue and Customs. It is high-quality data, but it is always imperfect, so there is always likely to be an error in it. Ideally, the main economic survey that we would use for employment, earnings and everything in the labour market is the labour force survey, but, as we might go on to talk about, there have been real challenges with regard to response rates and how accurate that data is. Fortunately, we do not use that data specifically in our forecast for tax revenues, but it has implications for us more broadly in relation to our overall economic forecast and, crucially, our understanding of some of the economic fundamentals, which we might go into later.

In essence, the new modelling that we are doing, which colleagues at the University of Strathclyde are working on, tries to be much more efficient at providing really up-to-date data and tracking how the economy is doing—moving into the world of what is called nowcasting—in order to give us much more sophisticated measures that can help us to track how the economy is doing in the near term. The university is doing that as part of its own research, but we will be looking to see whether we can use that and incorporate it into some of the technical aspects of our work.

Professor Francis Breedon (Scottish Fiscal Commission): We moved to using RTI because we had to. The problems with the LFS are bad enough for the UK, but the data at the Scotland level has been hard for us to use for a long time. It has been easier for the OBR to continue to use that survey data, but we moved to using the RTI much earlier, and that has worked very well in forecasting terms. However, it has raised some really important questions. For example, we know very little about economic inactivity, and we are even rather uncertain about unemployment. However, RTI has been really helpful in relation to employment and earnings.

Professor David Ulph (Scottish Fiscal Commission): One implication of that point in relation to the quality of our employment forecasts and comparing those to the OBR forecast is that we are not comparing like with like. Our forecast is based on RTI data and the outturns that come from that, while the OBR forecast is based on the labour force survey data and the outturns that come from that. That creates a challenge in understanding how well we are performing in forecasting.

The Convener: One of the areas of concern to the committee has been what seems to be the exponential growth of the welfare budget, the majority of which—£151 million—concerns issues relating to the pension age winter heating payment. However, compared to your December 2023 forecast, the provisional outturns are £142 million—or about 2 per cent—less than predicted.

I note that most of the forecasts are correct to within 2 per cent or 3 per cent here or there. However, one area in which there is a significant difference is the child disability payment. The forecast was £450 million but it has come in at £514 million, which is a 14 per cent differential. The other area is the Scottish welfare fund, which has come in at £53 million as opposed to a forecast of £36 million, which is a 49 per cent differential. You explained the reasons for that in paragraphs 4.26 and 4.18 of the forecast evaluation report, but, just for the record, will you talk us through that?

Professor Roy: When we do the evaluation of our forecasts, we find that there are several reasons why error might emerge. It can emerge because we got our judgments wrong due to modelling mistakes, human error and wrong judgments, and it can also emerge because policy has changed since we made our forecast. With the pension age winter heating payment, the Government changed the policy between the budget and the beginning of the financial year, which meant that the forecast that we made was different from the outturn. Similarly, there have been some changes in the Scottish welfare fund, whereby the Government added more money to it, which then had an impact on the outturns.

The areas that I think are really interesting, because they get into the broader questions about where social security is heading and also some of the issues regarding challenges in the economy and society, concern things such as the child disability payment and the adult disability payment. One of the things that has surprised us is the fact that the caseload, particularly for the child disability payment, is higher than in our forecast. That has led to more payments being made than we expected. Our 2024-25 forecast was that there would be inflows of about 11,000, but they were actually closer to 16,000.

We will update our forecasts, but that opens up some interesting questions about what is driving the increase. Is the system perhaps working more effectively or drawing more people in to claim child disability payment, or do those inflows actually reflect some broader challenges in society regarding mental health and an increase in the number of people who report having a disability? Something similar is happening with the adult disability payment, where we are seeing growing inflows into that.

Some of that comes back to the point that Francis Breedon made about the challenges with the LFS. We would like to be able to see high-quality data from the labour force survey on things such as adult ill health and then consider whether we can reflect that in our thinking about some of the disability payments. Being able to close that loop is where weaknesses in the LFS cause us problems.

The Convener: The numbers are quite stark: the number of people on adult disability payment will rise to more than 700,000 in the next five years. Are people in Scotland really becoming that much more unhealthy?

Professor Breedon: It is worse than that—people in the world are becoming much more unhealthy. This is a trend that is certainly happening in the rest of the UK and in other countries; it is a pretty widespread trend. Clearly, in a sense, Scotland is at the forefront of that trend, but it is a global trend—or, rather, it is a trend in global developed economies.

The Convener: One of the issues that will cause difficulties is the reconciliation with regard to income tax. There will be £406 million applied to next year's budget, which is a nice wee bonus for the Scottish Government. However, there will then be a subsequent negative reconciliation of £851 million, which exceeds the reserves. What impact will that have on the Scottish budget?

09:45

Professor Roy: The first reconciliation that you are talking about is essentially confirmed—it will hit the budget for next year and will boost the revenues higher than they otherwise would have been. The bigger one—the £850 million that you are talking about—is still indicative at this stage. We and the OBR will produce updated forecasts towards the end of this year, and we will know the actual outturn next July. What is driving the data is that, although we have uplifted our forecast ever so slightly since we made our forecast for 2024-25, by about £500 million, the OBR has uplifted its forecast even more for the UK.

As you know, we have two different moving elements: our forecasts and the OBR forecasts. It is essentially the difference between the two that gives the net position and that drives the reconciliation. You will recall that we had a couple of years when Scottish earnings growth outperformed that in the rest of the UK. We had a bit of a turnaround in the north-east, and we had stronger growth in areas such as financial services, and that pushed up Scotland's tax-base growth relative to that of the rest of the UK.

This is still all emerging, but the data that we have shows that that improvement has eased off to the extent that the most recent forecasts for earnings that are coming through actually have us pretty much like-for-like with the rest of the UK. Overall, the OBR is forecasting higher tax revenue growth for 2024-25 than we are, and that is what drives the reconciliation. It is the combination of our forecast being revised up slightly but the OBR forecast being revised up by even more.

As I said, I should caution that the number will change, because we will have updates coming through later in the year. Clearly, you are right that, if that number—£850 million or something of that magnitude—comes through, that will exceed the Government's borrowing powers for managing forecast errors. That would mean that the Government could not just borrow the full amount—it could borrow some of it, but it would have to find savings in spending to compensate.

Professor Breedon: The analysis that we have done suggests that that is not a completely out-of-the-range number. With a much larger nominal budget over time, it is the sort of number that we can expect to see relatively regularly. Therefore, the issue of the reconciliation being bigger than the borrowing limit is one that the Government will have to deal with quite regularly.

The Convener: The resource budget is set to grow by about 0.8 per cent a year over the next few years, which Scottish ministers say is somewhat less than the figure of 1.2 per cent across the UK. However, given that the welfare budget is set to increase such that it will be 6 per cent higher as a share of the Scottish budget, would I be right in saying that, as things stand, that means that there will be less for every other department?

Professor Roy: Yes, so the—[*Interruption*.] Sorry. On you go, David.

Professor Ulph: I just want to say that, because social security spending is demand-led spending, there is nothing much that you can do to control that. Basically, once you strip that off from the other areas of spending, that tells you what you have left to spend across health, education and all the other areas. Therefore, it is really important to keep an eye on what is happening to social security.

The Convener: There are certainly ways to control it, but the issue is more about whether those are politically palatable or indeed desirable. What are the implications likely to be for non-protected areas of the Scottish budget—that is, excluding health and social care?

Professor Roy: When we published our update in June, we looked at the total resource budget and then the total resource budget less social security, and we saw quite clearly that the real-terms growth rates, particularly into 2026-27 and 2027-28, are very low—depending on the inflation figure that you use, they might even be slightly negative. One caveat with that is that all those things will be updated after the UK Government announcements over the summer. We have a UK budget as well, so the numbers will move around slightly. However, the key point is that, if the overall resource budget is growing relatively slowly, and the social security budget is growing more quickly—and, as David Ulph said, it has first call on funding—that means that everything else in the system will have to take the bigger strain.

That means that the spending review will be absolutely crucial, because there are big questions about the public sector workforce, which accounts for more than half the budget, and about how much goes into the NHS, which is a huge component of the budget. In my opening remarks, I noted that it is important that the spending review has a strategy not just for where money is going to be spent and increased, but for managing areas where spending is going to be decreased, be cut back or grow less quickly. The numbers that you see at the moment mean that—unless something dramatically changes—there are going to be areas over the next five years that will have to pick up the strain caused by growth in social security or priority areas such as the NHS.

The Convener: Of course, we are all assuming that productivity is not going to somehow leap forward in the next few years but, if it did, that would certainly make a big difference.

One of the things that you have talked about in your update is the need for clear budget information to aid scrutiny. The Scottish Government is taking some steps towards that, no doubt because of the relentless nagging by you and the committee. Can you talk us through what you feel has been done that has been positive in terms of transparency, and what more the Government needs to do to further increase transparency?

Professor Roy: First, a lot has been done over the past few years to improve the level of information that is provided in budget documents and to make it more transparent. One of the big improvements last year was to present the budget document on the basis of the change between the autumn budget revision—that is, the most recent published figures in terms of spending—and what was going to happen in the next year. If you recall, the budget document used to be presented on the basis of what would happen relative to the draft budget of the previous year, which could make any comparison quite difficult, because many things would have changed since that draft budget was set out.

The problem that arose last year was that, after the autumn budget revision, significant Barnett consequentials came through as a result of the United Kingdom budget. That meant that, because the budget was presented relative to the autumn budget revision, there was quite a disconnect between what the growth in certain portfolios was expected to be and what had happened in reality. On page 8 of our fiscal update report, we highlight the significant variations between what was reported at the time, relative to the autumn budget revision, and the reality of what happened when we got to the spring budget revision. For example, the health and social care budget was expected to have a real-terms growth of 3.4 per cent, but the reality was that it grew by just 0.3 per cent by the time of the spring budget revision. Therefore, we have suggested that it would be really good if, where there are instances of significant change between the autumn budget revision and the budget, the Government could set those out, so that we can make a much more meaningful comparison.

The second area in which we talk about potential for improvement—I know that this is a favourite of the committee—concerns in-year budget transfers, where funding is announced for one portfolio but appears somewhere else in the budget later in the year. Clearly, Governments need to respond flexibly to things that happen, but there are some areas in relation to which money is consistently allocated to one budget and we always know that it will be moved to another one. Our recommendation is that those sums should be allocated to the budget where it really matters that they should be in the first place.

The Convener: In paragraphs 5.9 and 5.11 you talk about that issue in relation to social care. That is helpful, as it aligns with the committee's view.

The issue of national insurance contributions is of significant interest to us. You have said that the UK Government provided £339 million to ameliorate the impact of national insurance contribution increases in the current financial year, and that the gap in terms of what the Scottish Government will have to pay to meet those increases amounts to between £200 million and £400 million—I do not know whether you have any further detail on what the actual sum is. I take it that the £339 million that the UK Government has put in is Barnettised, so that it will be part of the budget as we go forward. Is that correct?

Professor Roy: As I understand it, the £339 million is the change in Whitehall department spending that was essentially Barnetted off, and that funding is now in the budget. We do not yet know where it has been allocated, but that will come through in the autumn budget revision, which the Government will set out. At that point, we will know more detail about where the £339 million has gone and about which areas have had to take up the factoring of additional national insurance contributions into their existing portfolios. When the Government provides that update, we will see where the money has been transferred.

The Convener: Thank you for that. I should say that in section 4.22 of the fiscal update, on adult disability payment applications, you

"forecast the caseload to rise from 529,000 in 2025-26 to 703,000 in 2030-31".

In a mere five years, the case load will increase by 174,000—that is about 30-odd per cent. The financial implication is that spending will rise from £3.6 billion in 2025-26 to £5.4 billion in 2030-31. That is a 50 per cent increase over five years, which the committee and the Government will have to take cognisance of.

The last thing that I will ask about before we move to colleagues around the table is capital allocation. Interestingly, the forecast shortfall in resource and capital is not that different—for capital funding, it is about £1 billion-odd over the next financial year or so, which will rise over the next five years to about £2.1 billion, compared to a shortfall of about £2.56 billion for resource spending.

What has the inflationary impact been on the capital budget relative to the allocation over the past five years? My understanding is that the allocation over the past five years has declined while inflation has been about 27 per cent, and that that is the root of the gap.

Professor Roy: Francis, do you want to say a bit about inflation in the capital budget? I will explain a bit about the overall budget.

Professor Breedon: The capital budget has been declining in real terms. There was a big increase in the recent budget, but a lot of that funding has gone because it has now been moved to reserved areas as part of the spending review. The Scottish capital budget still gets a boost, but the historical decline has been steady. That reduction is a long-term concern in the sense that we are worried about future productivity, and a good capital budget is a big element of that.

Professor Roy: If you look at what has happened to the capital budget—this is a genuine issue when it comes to how you manage capital budgets—we had a huge increase in 2025-26 relative to where we were in 2024-25, which largely reversed the previous Government's plan to freeze capital spending and let it drop by about 20 per cent. We will get a huge boost to capital spending in 2025-26, but it will tail off so that it becomes largely flat in cash terms and then it will start to fall in real terms.

There are genuine questions about how effectively that approach lets you manage your capital profile and what the impacts will be on inflation. It is not only about how inflation impacts the capital budget, but about how capital impacts on prices for various key activities. One challenge in having big, lumpy injections of capital that need to be spent in relatively short time periods—you can put some in reserve and do things with ScotWind and so on in order to smooth it out—is that you end up driving up prices in a lot of the investment that you are doing, so the actual value for money is much reduced.

The Convener: If you have the same workforce and you are injecting cash, you get an inflationary boost, but when the capital starts to tail off, as it will over the next five years, you can do less with it.

Professor Roy: The Government has flexibility to try to smooth that out, because it has capital borrowing powers, which it could ease off on. Then, there is the prioritisation of ScotWind funding—it is now much more in capital than it has ever been, which is a good thing. There is also the funding that the Government can use in reserve. The basic question is whether it makes sense to have lumpy injections of capital coming through via the block grant rather than having it all in reserve.

10:00

The Convener: One would have thought that steady growth would be better, to allow capacity to increase. However, it is about the impact of this on real people, in real communities. When we talk about capital spending we have to consider that a huge chunk of it is for routine maintenance—people forget that and they think that capital is just spent on building things—which means that there is less money for new projects, which then have to be delayed. Is that right?

Professor Roy: Yes. We do not look into the detail of the value for money of the spend but, on a basic point of principle, if you are having to spend very quickly, it means that there is less supply going around, which, all else remaining equal, will increase the price, so you get lower value for money. One of the important aspects of the spending review will be a really clear plan from the Government about not only what it plans to do about its capital priorities but the timing of those capital priorities, how they are all joined up, the relative profile of that and what its expectation is around value for money. We do not have the plan yet. The Government has set out projections of a gap in capital, which suggests that it has a plan for what the priorities will be, but we will need to get the detail of all of that when the spending review comes around.

Professor Breedon: You make a good point about depreciation, convener. It is natural that the first thing that money is spent on is stopping bridges falling down and roads crumbling, which means that the growth-producing investment is the bit on top of that. Therefore, if you cut the capital budget too much, you end up in a negative downward spiral in which the economy is constrained by lack of public infrastructure, growth and tax revenue slows, which means that you spend less money on capital, and so on—the whole thing spirals downwards. It is worth noting that, even though the capital budget seems large, a lot of it, as you say, is just maintaining the capital stock that already exists.

The Convener: Yes. You can end up in a vicious circle rather than a virtuous circle.

I open up the session to colleagues around the table.

Liz Smith (Mid Scotland and Fife) (Con): If I may, I will focus on the revenue side of the budget. Professor Roy, you said earlier that most of the data that you require to estimate revenues is RTI data that comes from HMRC, but when we are looking for fiscal sustainability in the long term, we need more data than that, particularly data on the labour market. You said that you have concerns about the fact that a lot of data on the labour market is missing. Could you tell us a bit more about those concerns? Trends such as the number of people in work, as opposed to the number of those who are out of work, whether through unemployment or inactivity, really matter for the future. The projections for ensuring fiscal sustainability are very dependent on our having that data, some of which we do not appear to have. Could you say a bit more about that?

Professor Roy: I can go first; David Ulph might want to come in, too. The general point is that you are right: we depend on data—policy making depends on really good data and the statistics around it. The labour force survey is so useful because it gives really rich data, not only on employment but on types of employment, such as part-time or full-time employment, or self-employment. It gives data on employment by gender, region and age, and it does the same thing in relation to unemployment. Crucially, as Francis Breedon said, it gives us really rich data on inactivity. What age are the people who are inactive, and why are they inactive? You could be inactive at a young age if you are in full-time education, so we do not have to worry about that. However, if you are inactive and are of working age, but you are off work because of ill health, that is a real concern. We really need that rich data to be able to understand the big drivers of inactivity. Is a spike in adult disability caused by something that is happening in the labour market or the economy? What other data can we use to see what causes that? The problem at the moment is that the data is just not fit for purpose. We cannot trust it. There are always margins for error, but there are always errors in the data. When the data becomes something that we genuinely do not believe, we are flying blind, to an extent.

Liz Smith: Can I dig a bit deeper into why the data is not there? Obviously, having it is critical for longer-term planning.

Professor Roy: One of the key reasons is the drop in response rates. The labour force survey essentially asks people about their current employment conditions. Across all major economies, particularly post-Covid, the response rate for such surveys has fallen quite significantly.

In the olden days, you would just speak to people by phoning them up, seeing them in the street or finding other ways of doing it. Now, people work from home and do not have the same access to traditional communications, and having trust in statistics has become more challenging, so there has been a real drop in the response rate. When you want to understand a particular group in detail—people who are inactive because of ill health, ethnic minorities, or people from a certain gender or age group, for example—you need to oversample in order to dig into the detail. Doing that has become really challenging, and the Office for National Statistics has struggled to keep up. That is why the surveys have become poor at giving results.

Professor Breedon: We are in a funny period with statistics. The quality and amount of administrative data have increased hugely. RTI is a great example of a survey for a data set that is collected from administrative information. It has been a really useful addition. However, we have a situation with statistics in which the administrative data is getting much better, whereas, generally speaking, the survey data, for whatever reason, is getting worse. There are some things that still have to be surveyed, and economic inactivity is one of those.

Liz Smith: Does that mean that, within the vague trends that we have, it is very difficult to predict whether policies that try to reduce the amount of economic inactivity will be able to get that right? Is that one of the major problems?

Professor Roy: Yes. David, do you want to come in on this?

Professor Ulph: It is also a question of where activity is taking place. One thing that you need to understand somewhat better is what is happening with young people who are entering the labour force and their propensity to be attracted to the south-east and London, rather than staying in and working in Scotland. We need to understand those mobility issues and where people are moving to in order to take up work.

Liz Smith: Is there any optimism about how we will get that data? This is a crucial problem in policy making, particularly with regard to longer-term sustainability, because we will not achieve that unless we are able to increase the revenues that come into the economy. Not knowing where that revenue might come from is a pretty serious problem. Do we have any optimistic outlooks?

Professor Roy: Yes. As Francis Breedon said, the shift towards administrative data is one potential avenue for addressing that. The richness in tax data and in data from Social Security Scotland—for example, on disability payments, what drives them, and what the characteristics are—is helpful.

Ultimately, a lot of it will come down to rethinking how to do big labour force surveys, investing in capabilities, including digital capabilities, and resourcing them to allow them to be done in a much more sophisticated way. For example, can you boost the sample overall by having a larger number of people fill in the survey digitally? There are concerns that that method might not be as accurate, but does having the bigger sample wipe out some of the accuracy concerns? The ONS has been working on that issue for a couple of years now—you probably saw the evidence session at the parliamentary committee at which it was discussed—but we do not seem yet to have the progress that is needed. What more can we do to get that to happen?

You are right: this is fundamental for policy. If you are going to have a policy that improves employability, you want to be able to see what happens to employability. If you cannot do that, it is a real problem.

Liz Smith: It also means that there is a bit of a vacuum now. People are trying to do the right thing but they do not know whether what they do will be accurate, because they do not have the necessary data.

Professor Roy: I have two concerns about the situation. You are right that it causes real concern around making good policy. It also erodes the trust that people have in evidence and statistics to inform policy. If you do not have the evidence and statistics to inform policy, why do you bother having evidence and statistics in the first place? That is an even more worrying potential trend.

John Mason (Glasgow Shettleston) (Ind): The convener touched on quite a number of issues. I will go back to one or two of them, particularly the potential £851 million negative reconciliation in 2027-28.

I accept that the situation is uncertain. In the past, we have been warned about bad news but things have then improved. Does that mean that I can be relaxed about that figure? If not, what will the Government have to do? If the figure is £851 million, do we do nothing this year but, when we come to the 2027-28 budget, there will have to be a reduction?

Professor Roy: There are a couple of things to say. I would never be relaxed about anything to do with the fiscal framework. I will just explain what we are seeing. In essence, the reconciliation largely ends up being the difference between our forecast error and the forecast error in the BGA. What we see, at least to date, if we compare our budget-setting forecast with our latest forecast, which was in May, is that we have uplifted our forecast for Scottish income tax by about £150 million. That is the difference. If we look at the BGA, which is from the OBR's forecast of equivalent tax growth in the rest of the UK, we see that that has gone up by about £1 billion from around £17.4 billion to £18.4 billion. It is the movement of those two different elements: our forecasts and the OBR's forecasts.

Part of the difference is due to the trends that we have seen in earnings. In recent times, earnings in Scotland have outperformed those in the rest of the UK, but the most recent data that we have—we talk about it in our fiscal update—shows that that gap has narrowed. If anything, UK earnings have been growing slightly faster than earnings in Scotland. All those different elements mean that, on current trends, negative reconciliation is coming down the line.

As I said, the much more important update will be in December, when we have updated OBR figures on another set of RTI data, as well as our updated figures, which will include more up-to-date earnings data, RTI data and evidence. That is a crucial one, because it is the update that will set the budget for next year. The Government can then start to think about how much it might need to borrow for that and, if that amount exceeds the borrowing limit, what adjustments it might want to make to smooth some of the growth into next year's budget for when it hits in the subsequent year.

John Mason: Is the borrowing limit for that purpose £700 million?

Professor Roy: It is perhaps just over £600 million—or is it £700 million?

Claire Murdoch (Scottish Fiscal Commission): It is forecast to be £666 million, because it now increases with inflation.

Professor Breedon: The one thing that you could do is try to add more to the reserve this year to be ready for that. However, there is a similar issue with the reserve. The limit on the total size of the reserve has become a binding constraint, too, so there is rather limited room to adjust for these big numbers.

Professor Ulph: The other thing to add is that, although we do not know the precise number, it is highly unlikely that it will go from being negative to positive. You can certainly think of it as being a negative reconciliation, and the question is then how you will manage that reconciliation. However, it could be a higher number.

John Mason: If it comes down, that is good, but if it goes up, that is a problem. That leads me on to Professor Breedon's comment that larger negative or positive reconciliations could become more likely. I read in paragraph 3.22 on page 25 of the fiscal update about the

"24 per cent chance of a negative reconciliation exceeding £600 million".

Will you explain that to me a little bit? Is that just a random statistical thing?

Professor Breedon: That calculation is a random statistical thing. We have calculated the sort of forecast errors that both we and the OBR can make and how correlated our mistakes are, and that provides a potential range for reconciliation. It is just a statistical exercise to give you and us a feel. The underlying message is that the limit on borrowing is smaller than the range of reconciliations that we are likely to see. As I said, the help that the reserve could provide is now being limited by the fact that it, too, often hits its top limit. That means that in-year adjustments to these events will have to happen, which is perhaps not the best way to run a budget. However, that is the bottom line.

Professor Ulph: There are two factors driving the size of that 24 per cent probability figure. One is the overall level of tax revenues. We are now at such a high level of tax revenues that errors matter quite a lot more when it comes to hitting the target of £600 million.

The other issue is the correlation between our errors and the OBR's errors. Initially, when we did the exercise in 2021, we assumed that the correlation was about 50 per cent, but the data suggests that it is actually a lot higher than that. It is about 80 per cent, and that is the figure that we use to get the figure of 24 per cent probability. If that correlation was to drop to, say, 40 per cent, we get a one in three chance of exceeding the limit.

The correlation matters quite a lot. If we and the OBR made exactly the same mistakes, there would be no reconciliation. It is only because we make different mistakes that we have the problem of reconciliation. That is why the correlation between what we do and what the OBR does matters.

10:15

John Mason: Okay. Despite my knowledge of statistics, I am struggling at this point to get all those percentages, but I get the general point.

I know that you cannot go into the political side but, from the technical side, if, as you have all suggested, things are becoming more volatile—or, at least, we have more risk because Scotland now has more responsibility for a whole range of things—is there a technical argument that the £600 million or £700 million reserve should be increased? Can you answer that without going into the political space?

Professor Roy: Yes. That is where constant reviewing of the fiscal framework to see how it is operating and working entirely makes sense. The idea of the borrowing was basically to give the Government flexibility to manage forecast errors from the Scottish Fiscal Commission and the OBR. I do not think that it was ever designed to mean, "This is the limit, and you'll have to suck up anything else." It was about the fact that we have the forecast errors.

The £600 million is now growing through inflation, but if we look at total revenues, we can see that income tax revenues were £12 billion in 2021 and are now £20 billion. That huge growth in nominal income tax revenues means that even the slightest error matters much more. Errors matter more on revenues of £20 billion than they do on revenues of £12 billion. There is a question about—

John Mason: We now have responsibility for social security, which is a more volatile thing.

Professor Roy: Yes. That is slightly easier, because we have in-year adjustments. The forecast error on social security should—touch wood—be smaller than the forecast error on income tax revenues, because it is more about administrative data and we do not have the same volatility in relation to things such as people applying for adult disability payment that we have in relation to income tax forecasts. In principle, however—

John Mason: We have found it difficult to forecast social security exactly. Is that just because it is new? Will it calm down and be easier to forecast in future?

Professor Roy: Yes. In time, once it is bedded in, it will be influenced much more by demographic trends and long-term trends in health and disability so, all else being equal, the forecasts are likely to be much more stable. There will still be errors and changes in policy, but social security is not likely to bounce around as much as income tax potentially will. On income tax, we rely purely on judgments about the overall economy, which is impacted by what happens with things such as tariffs. Those are completely outside the Government's control, so income tax is likely to be much more volatile and the judgment is much more subjective.

Professor Breedon: There is also the technical point that there is a two-year gap between our making a forecast on income tax and the outturn data. We get the social security outturns way quicker, which makes the reconciliation process much easier. The big gap on income tax is mainly related to self-assessment data, which comes very late, and the forecasting errors can be particularly important for reconciliations.

Professor Ulph: The other question that the committee might want to ask is whether we should not just uplift the borrowing limit in line with inflation, but scale it to something else.

John Mason: Yes. I am going to ask the cabinet secretary about that when she comes in. That is very helpful—thank you.

Professor Breedon: I add that, because we are fiscally prudent, the limit on the reserve is equally important to the limit on the borrowing.

John Mason: Yes, they are both important—absolutely.

I will touch on the whole area of pay policy. As I understand it, the idea was to allow for 9 per cent over three years, which is 3 per cent for each year. However, a number of settlements have been made, totalling 8 per cent for the first two years, which leaves only 1 per cent for the third year. A figure of £122 million has been mentioned as the difference—I do not know whether that was your figure or the Government's. Where is that leading us? The plan was for a 0.5 per cent reduction in the public sector workforce each year. Will that figure need to be bigger to match the 9 per cent?

Professor Roy: The 0.5 per cent figure and others are all Government calculations. When the Government was calculating that, some of the pay awards of above 3 per cent had already been agreed and were in the MTFS. You would hope that the loop would be closed there.

The basic point is that, given a relatively fixed budget that is growing relatively slowly and given that pay is more than half of the budget, if more money is put into pay above the expected pay awards, that money has to be found either by cutting the public sector workforce by more than was planned or by making savings in the day-to-day costs of public service delivery. It is simply a matter of arithmetic in that context, as the Government is constrained in its overall budget envelope.

John Mason: The public sector workforce has clearly been growing in recent years, and you make the point that it would be quite a change for it to be reduced. Am I right in saying that there is no detail, so far, as to where the reduction would occur? From what the Government is saying, the reduction appears to be 0.5 per cent across the board.

Professor Roy: Yes.

John Mason: But there might be something about front-line services.

Professor Roy: Yes—exactly. This is where we get into questions about what is and is not a front-line service and about how front-line services depend on back-office functions. I have also mentioned the big-ticket item, which is that, of the 250,000 people who are employed in the devolved public sector in Scotland, 160,000 are in the NHS. Where is the relative balance? Finding 12,000 or 15,000 people from the non-health public sector workforce would be a much more significant adjustment in that workforce. Will you try to find some things in the NHS, too?

Professor Ulph: The expectation is that the 0.5 per cent reduction can be met through natural wastage—people retiring and not being replaced—rather than by redundancies. If you cannot meet some of the targets, you may have to reach more into redundancy as a way of balancing the workforce.

John Mason: If there are redundancies, that usually means paying a lump sum to people. Is that taken into account in all the figures?

Professor Roy: My assumption is that that will typically appear as a cost within the portfolio. It is a bit like progression. David Ulph makes a good point about natural progression. I come back to the point that the spending review is really important for setting out not just the numbers but the plan for the shape of the public sector workforce. If you are relying purely on natural progression, you should note that that is largely distributed randomly across the public sector, without any real strategy for how to manage the public services. As I said, the spending review is important for setting out not just the numbers but the pay policy and the broader public sector workforce strategy.

John Mason: I thought that public sector reform would identify areas where there are definitely too many workers and others where there are slightly too few, for instance, and that there would be some kind of targeting. For example, the Scottish Fire and Rescue Service has been successful at reducing the number of fires so, while I am not saying that I am arguing for this, there is an argument for reducing the size of the fire service. However, the Government does not seem to be looking at things in that way, as far as I can see.

Professor Roy: I guess that that is where the spending review comes in; it will be crucial to have done that work, which gets right into public sector reform efficiencies. If you are saving workers in some areas, what does that mean in relation to the broader efficiencies that are coming down the line?

John Mason: Are you optimistic that the Scottish spending review is going to go into a lot more detail, or do we not know?

Professor Roy: That question about detail is obviously for the cabinet secretary. We have been quite clear that the spending review is a pivotal moment and a milestone moment for the public finances, not just in this session of the Parliament but for future sessions.

For me, the issue is not just the numbers but the process of the spending review. What exercise will be set? Will it involve departments or zero-based budgeting? Will it involve scenario planning and different components? What is the workforce element that sits behind all that? What are the detailed efficiency savings and how will they be tracked, monitored and evaluated? The spending review process is, arguably, even more important than the first set of numbers that come out.

Professor Breedon: When we—and, I am sure, everybody in this room—hear the term “efficiencies”, it sets alarm bells ringing, because it raises the question of what we are talking about and whether it is like wishful thinking. We are looking forward to seeing the detail about where efficiencies will come from rather than just hearing a catch-all phrase. It is genuinely early in the process, so we would not expect the details yet, but we are all waiting with bated breath to see what they will be.

The Convener: Incidentally, the full-time-equivalent public sector workforce in Scotland is 469,100, according to the medium-term financial strategy.

Craig Hoy (South Scotland) (Con): Good morning. Quite a lot of the ground that I had intended to cover has been covered. However, I have a question for Professor Roy about the form, function and frequency of the various reports that the committee looks into.

We criticised the delay to the medium-term financial strategy. We are now having a spending review which, if it was going to be warts and all and completely open and frank, we probably would not want to have on the eve of a Scottish parliamentary election. From your vantage point, could more be done in the next parliamentary session to streamline the process and declutter the number of reports and strategies, so that we get a much clearer impression of where Scotland's public finances are?

Professor Roy: I can say a couple of things. There is a counter-argument about doing a spending review in advance of a parliamentary election because, although we are immediately going to get into politics and questions about what it sets out, a spending review that is done well and which sets out all the issues sets the scene for the debate about the priorities of the next Government, whoever that is, in the election campaign. That is an important point because it shows that, if people are going to ask for or demand increased spending in some areas, the spending review should be clear about where to find the money. That is a challenge not just for the Government but for any party that wants to form the next Government.

The exercise and process of a spending review will provide a lot of the evidence base that helps whoever comes into the next Government in May by giving it the information that it needs to make the right decisions and the decisions that it wants to make. Abstracting from the politics, it is important to have a spending review and, in many ways, it is advantageous to have it in the run-up to an election.

On the broader point about the clarity of the process, the challenge to an extent is that the Scottish budget process is heavily linked to the UK budget process. As much as I agree with what you are saying, it would be great to have real clarity and to cut back on the moveability of different elements of the budget. We have a budget at the end of the year and we have a medium-term financial strategy in the spring. Just stick to that—that is great.

There are caveats around that, and it depends on decisions at the UK level that involve particular issues. The Scottish Government's argument was that the MTFS was delayed by the UK spending review. We have sometimes seen the Scottish budget come right up to Christmas because of the lateness of the UK budget. Broadly, the Scottish and UK budget systems being much clearer and having more fixed timelines would be a real advantage.

Craig Hoy: You said in the fiscal update that ending fiscal transfers would improve the scrutiny and functioning of the Scottish budget, as they have serious material effects, particularly on the health, education and local government portfolios. From your discussions with the Scottish Government, why do you think that it is so reluctant to make what would seem like a relatively modest and sensible change to the way in which it presents its accounts?

Professor Roy: Part of the answer is that this is the way in which it has always been done—it is just how it has been presented. The Government is trying to be transparent by saying, "This is the allocation that we made last year, so we want to compare it with the allocation that was made the previous year and set that out." However, people such as the committee and us are saying that that is not the best way to do it. We would like it to be done in a more informed way, so that we could use it and engage with it.

I think that the Government has been moving on this—it is not perfect and we will keep on pressing it to have more in there. A good example of where the Government has started to take steps is in internal budget transfers. It has done things on the pay awards for social care and so on that have been quite helpful, and we want it to complete the task.

10:30

Craig Hoy: We hope that the spending review will start to put down mitigations in respect of the risks that the MTFS identifies.

We have talked about public sector pay. Some of the major areas of public sector pay have already been set for two years, and they are at 7 per cent, which leaves less than 2 per cent. There is an inflation guarantee, but the policy does not account for pay progress or for grade inflation, which I think that we have seen in the civil service. Is that ringing an alarm bell quite loudly for you in respect of the long-term sustainability of Scotland's public finances?

Professor Roy: I come back to my point about the spending review. It is incumbent on the Government to consider, and we would hope to see, that the spending review provides a strategy for how the public sector workforce and the pay bill in its entirety are going to be managed and set out over the medium term. That is not just about what the broad pay policy is—we have had that this year, and it is an improvement on what we had before—but about having a strategy around exactly what the total cost is of the public sector pay bill, including progression, inflation and grade inflation. It is also about the balance between decisions on pay relative to decisions about the workforce. The spending review provides the ideal time to set all of that out.

Professor Ulph: In the MTFS, the Government was quite good at setting out additional elements such as pay progression, which were included in its calculations. It was not just the pay award that was included; pay progression was added in, too.

Craig Hoy: I presume that the risk is that, if the Government does not meet its 0.5 per cent target, this is all compounding through the system, eventually, because there will be a larger civil service than the Government projected and potentially higher pay than it had included in its pay policy. That is the risk, is it not?

Professor Roy: Yes—with a fixed budget, that is always the challenge. The more you put into public sector pay, the less you have to put elsewhere. The caveat to all of that is that, ultimately, public sector workers are the people who deliver the public services, so it is all part of the conversation about where you are putting your resource to deliver the public services that you want. I go back to David Ulph's point about just relying on natural attrition—if you just let that happen naturally, it does not guarantee that you have the right people in the right place.

Craig Hoy: Another risk involves devolved social security. Professor Ulph, when you were previously before the committee, you put to us quite interesting and alarming statistics about the refusal rates for adult disability payment being 16 per cent in England and 2 per cent in Scotland. When we put those numbers to the Scottish Government, it said that we were comparing apples and pears and that the difference was something to do with the fact that the benefit was recently devolved. Have you been able to interrogate that data further to show whether it results from a policy approach or the recent devolution of benefits?

Professor Ulph: I do not think that we have pursued that any further at this stage.

Professor Breedon: Clearly, there is an issue because there were a lot of transfers of people who were in the UK system coming to the Scottish system, and the extent to which they come off benefits is going to differ from the position of people who have not been in the UK system altogether.

However, we have relative confidence that this is an underlying trend in the system. One reason for that is in how reviews are done—the idea is that the reviews are largely, but not entirely, self-certified, whereas in the UK system, that is less the case. We can reasonably expect that, if people are self-certifying, they are much less likely to sign themselves off a benefit than they would be if they were reviewed elsewhere.

I think that a fair point has been raised, but it will be a while until we get a completely solid take on the data, because the transfer process is still going on. However, we are fairly confident that we will find that that is the case.

Professor Ulph: Another point to consider is that, if the ambition is to get things right first time, you would expect a much lower rate of people being refused under the Scottish system compared with the PIP system. You also have to think about all the other elements that go into the administration of social security. It is not only the review process; it is the whole process of getting people put on benefits in the first place.

Professor Roy: To be clear on the point about the data, we are still seeing the same trend that Professor Ulph was talking about. The PIP system applies in England and Wales, and we have the ADP system in Scotland, so things will always be slightly different, and things are bedding down.

The basic point still holds that far fewer people are having their ADP decreased or ended, relative to what we are seeing in England and Wales. We have tracked that around 3 per cent of claimants in Scotland are having their payments decreased or ended, whereas the number is more than 20 per cent in England and Wales. We will need to wait and take time to see how those figures evolve over the forecast period, but the gap is still there. In the MTFS, the Government said that it saw that gap and needed to think about whether the system was working as well as was intended.

Craig Hoy: Another risk relates to what happens as a result of decisions taken by the UK Government. The MTFS refers to one issue, which is domestic demographics. However, defence spending could ride a coach and horses through the UK budget, which would have a consequence here. Given the global economic and defence security position, you get the impression that defence expenditure is likely to rise rather than fall as a percentage of the UK budget. What risks are there for devolved areas of expenditure if the UK Government has to cut front-line public spending in the rest of the UK?

Professor Roy: That gets straight to the UK's overall fiscal position, which is really challenging at the moment. The UK Government will have to make difficult decisions in order to cope with things such as rising bond rates. That context has to be taken into consideration when any spending commitments are made.

The commitment is to increase defence expenditure to 5 per cent of GDP by 2035, which is a big spending commitment that will demand that resources go towards it. What that will mean for the Scottish budget depends on how the increase is funded. If it is funded by borrowing, it will not have an automatic and immediate direct impact on other public services. If, instead, the UK Government says that, because of the overall challenging fiscal position, it will have to make savings and change its domestic public service growth plans in order to pay for increased defence expenditure, and if those savings happen to be in devolved areas, future block grants will be less than they otherwise would have been.

Professor Breedon: So far, the defence budget increase has come largely from the foreign aid budget—the funding has gone from one reserve to another, so it has not impacted other budgets. However, it has already had a big impact on the Scottish capital budget, because more UK capital spending is going towards defence.

Craig Hoy: That contingency should be built into the spending review. The Scottish Government should be aware that it is a potential real risk to its own financial settlement.

Professor Ulph: Another thing is that the defence spending might have some macroeconomic effects.

Craig Hoy: I was going to ask about that.

Professor Ulph: If that boosts spending in Scotland, there could be more economic activity.

Craig Hoy: The increase could drive economic growth and employment in Scotland, as it has done recently.

Professor Ulph: Yes.

Craig Hoy: That is super—thank you very much.

Ross Greer (West Scotland) (Green): The MTFS sets out four broad categories for spending. You have already covered quite a bit around public service reform and efficiency. The other two categories are about increasing the value and impact of public spend and preventative spend, which has been a perennial issue that we have discussed with you before.

I have a two-part question on increasing the value of public spending and preventative spend. Looking back at recent MTFSs, have you seen any trajectory of improvement in how the Scottish Government approaches maximising value for public money in its spending and preventative spending? Looking ahead, do you have any evidence that the Government has clear plans to improve its score on both of those counts?

Professor Roy: That is a really good question. The first question is probably more for Audit Scotland than for us, because we would not look at whether better value has been coming through from public spending. It would typically be a question for Stephen Boyle and his team, which looks back at such spending, whereas we tend to look more at the broader macro piece. There is the interesting issue of how to maximise the value of public spending and then to put a number on that and see how that differs from efficiency savings. It would be good to understand the calculations.

Ross Greer: There is no neat distinction between that and preventative spend, which is often the most impactful thing.

Professor Roy: That is part of the challenge.

In answer to your question about what comes next, it is important to have a really clear definition of the different elements. We need to know what is in the preventative spend bucket, what is in the value-for-money bucket and what is in the efficiency savings bucket. We need to know the overall picture and, crucially, how that will be monitored and tracked over time. The crucial bit will be having a process in the spending review to identify all those elements, set out what they are and set a clear path towards the outcomes.

Professor Ulph: To an extent, preventative spending requires a different type of workforce to the existing one and creates a need to recruit people. There may be an initial blip in employment to get people into the preventative area, but that can have the long-term effect of cutting demand from people who need treatment.

Ross Greer: That reminds me of John Mason’s line of questioning about whether to take money out of hospitals to put it into areas such as housing. We know that that would create long-term health benefits, but no one wants to defund hospitals at the moment.

To pick up on some of what Craig Hoy said about the impact of UK Government decisions, I am interested in looking not at the spending side but at the tax side. In the past couple of weeks, the Treasury has continually briefed that it is looking at what could be really significant changes in England’s tax system, particularly in relation to stamp duty and council tax. One option that has been mooted is to replace both of those taxes with a new, combined tax. Any change on that scale would have a significant impact on Scotland, so I am interested in whether the fiscal framework, as it currently stands, could cope with significant tax reform that affects England and the rest of the UK but does not affect Scotland. Would any change on that scale immediately necessitate reopening and reforming the framework itself?

Professor Roy: Claire Murdoch may want to come in on that from a technical point of view.

The short answer is that it would depend on the nature of any reform. For example, if the UK

Government chose to radically reform council tax, that would not really impact on the fiscal framework unless the Scottish Government wanted to do something similar. There would not even be any impact on Barnett consequentials unless the UK Government used it as a reason to give a smaller grant to local government. The situation would be similar for business rates.

We have been here before. There have been variations in land and buildings transaction tax and in stamp duty, but always on the basis that any changes would be relatively marginal. The abolition or radical reform of any tax would lead to interesting questions about the equivalent devolved taxes. We have never before been in a position where a tax that has been devolved no longer exists, so we would have to discuss that at the time. More than anything else, it will be interesting to see what happens.

Claire Murdoch: Another example would be the changes announced by the UK Government to the pension age winter heating payment and the clawback through HMRC. The Scottish Government has said that it will replicate those, but there will be a big change to how that works in practice and how it goes through the BGA. It initially seemed to be a relatively simple devolution of one social security payment, but, as you can imagine, the complexities in both tax and social security will increase over time. The UK Government wants to change its policy—as it is free to do—and, in time, the Scottish Government will also choose what it wants to do.

Professor Breedon: Although I would argue slightly against it, there is a tendency for Scotland to align every payment and tax with its UK equivalent. That happened with the winter heating payment, when the Scottish Government felt that it had to cut that because the UK Government cut it, although that did not necessarily follow. I think that other reforms will lead to UK versions and the Scottish equivalents getting further and further apart, which is not necessarily a bad thing if it means that we start thinking of the Scottish budget in its own right rather than always thinking about it relative to the UK budget. That change is happening, and I think that the reforms will accelerate it.

10:45

Ross Greer: One specific thing beyond the briefing—the UK Government has consulted on it and the direction of travel is clear—is not the abolition or replacement of landfill tax but the significant reform of having a single rate for it. Have you modelled any impact from the proposals that are in the UK Government's consultation?

Professor Roy: No. Technically, we would not model hypotheticals; we would wait to see what the Government would do. Clearly, the changes that it would make would change the BGA, which would be largely for it to do, and we would model something in Scotland only if the Scottish Government instructed us that it would like to consider that as its new policy.

Ross Greer: Given the relationship between landfill tax and aggregates tax, and recognising that you have private conversations with the Government, has the Scottish Government recently asked you to do any modelling of landfill tax and aggregates tax? For example, when we have had Government ministers here in the past—such as Ivan McKee in May or June, I think—the convener and I have encouraged the Scottish Government to look at the extent to which it could deviate from the English rates for both of those taxes.

Professor Roy: We would not disclose any requests for us to provide scenarios and so on until the Government set a policy, and that would then be for it to announce.

Ross Greer: Okay. It was worth a try.

Michelle Thomson (Falkirk East) (SNP): My questions follow on from the themes raised by Craig Hoy and Ross Greer. You have noted that you will not model hypotheticals. What assessment is the Scottish Fiscal Commission making of the risks of the fiscal framework against the macroeconomic position? It is not unreasonable to say that most people would consider that, at minimum, the risk of a UK sovereign debt crisis is elevated.

I searched through all your documents specifically for risk. To what extent are you constrained by your reporting within the fiscal framework exactly the scenario that you have set out—of UK budget decisions flowing through—and does that limit your ability to look at the big picture? We can see flow-through everywhere that we look: for example, in the impact of the energy profit levy on the North Sea. What are your reflections on that?

Professor Roy: That is a good question. Typically, we would do that in our main forecast work. What we published in August was, largely, our evaluation, looking back, of how well we did, where forecast error has been and the explanation for that. The fiscal update focuses largely on the core announcements that have happened over the summer.

Typically, in our budget work and the deeper dive, we would have a much bigger discussion of the economy and a much deeper discussion of the overall fiscal context. That is when we would have much more discussion about the potential risks.

Back in May, we talked quite a bit about tariffs and their potential risks for the Scottish economy. We did a bit of work on whether Scotland might be more exposed than the rest of the UK, and we found that, in fact, the risk was joint.

That is our deeper dive into the broader UK economic context and the potential implications for Scotland in that regard—if there are concerns about the UK fiscal position, what that might mean for Scotland. We would not comment on the UK fiscal position; we would say what was a risk and how it might impact on the next year's Scottish budget.

Professor Breedon: The process is that that is the OBR's business and we take what the OBR says as routine. As you will see in our fiscal sustainability work, we start with the OBR's projection of how the UK finances will be made sustainable. You may argue that that will not happen, but, logically, that is the process: we take the OBR's take on it. It does very good work in that area.

Michelle Thomson: You have set out the process as it is and the steps that you take. However, does the complexity of the UK Government's policy choices in the face of a serious macroeconomic position not increasingly limit your ability to prepare Scotland and the Scottish Government for what might lie ahead?

Professor Roy: I am quite comfortable that, as Francis Breedon said, we can take what the OBR is saying and make a judgment about the context for Scotland of what is happening at the UK level. What we would not do is start to make broader comment or judgment calls about the overall performance of the UK economy and so on. That is perhaps the constraint that you are getting at. We largely take the outcomes and risks that emerge from the OBR forecasts as a given and then look at those in Scotland-specific terms. What do they mean for the fiscal framework? What do they mean for the Scottish budget? We would not be asking what they meant for the UK budget. We rely on what others say and use our judgment to say what that means for Scotland.

The broader point that you are talking about is just how intricately connected the Scottish budget process is to that of the UK. We have seen it with things like the changes to pension age winter heating payments, which had an immediate impact. We saw it with the implementation of the PIP reforms, which were then reversed. The spending review, the shift to defence and the economic outlook at the UK level all have an impact on Scotland. The Scottish budget and the fiscal framework are not stand-alone things; they are closely linked to what is happening at the UK level.

Professor Ulph: Where we come close to what Michelle Thomson is talking about is in our fiscal sustainability work. We make our projections on the assumption that current Scottish and UK Government policies will remain constant, but we know that UK Government policies are not fiscally sustainable. In our fiscal sustainability reports, we have done some simulations of what would happen if the UK Government tried to go down a more fiscally sustainable path and what that would do to the levels of spending in Scotland. If the UK Government tried to achieve fiscal sustainability, it would dramatically worsen things. We do not want the details of how the UK Government is trying to achieve fiscal sustainability—

Michelle Thomson: Because that is policy.

Professor Ulph: But we are doing the type of exercise that you were talking about.

Michelle Thomson: The reason why I asked about that is that I can see that you have done a tremendous amount of work to increase understanding of the fiscal framework. I love your wee things on X, LinkedIn and so on explaining it. From my reading of it, though, we suffer from a depletion of quality financial journalists. In Scotland, journalists tend more to be generalists. In the context of the work that you are doing on the fiscal framework, I see quite a lot of gaps in understanding, one of which is how, ultimately, the macroeconomic position of the UK flows through into the Scottish budget. What is your sense of that? Where is the general understanding? I am thinking particularly about media journalists in the business and economic space.

Professor Roy: That is a really good question. The Organisation for Economic Co-operation and Development has written about engagement, and a real focus of the commission over the past few years has been to improve engagement and how we communicate. There are certain things within our control, and there are certain things that reflect broader challenges such as—as you mentioned—demand, the media and the loss of financial or economic journalists over the years. Those are challenges not just for us but more broadly.

We try to focus on three different elements. First, who are the people who really need to know the detail? That would be this committee, and we spend a lot of time engaging with you and with Audit Scotland and other key stakeholders, to ensure that we understand the detail of where you are all coming from. There is then a second group that we engage with to discuss some of the core elements and to help them to understand things like trends in social security and the tax performance elements in all of that. There is also a third group with which we consider how we can encourage a better more general conversation in society and in Scotland at large.

Engagement is challenging when we are a small organisation. We do some really good things, but we depend on there being a lot of people who demand and engage with those things. You are right that, when we add a complex framework to that, it becomes more difficult. We are making good progress and we have plans to do things like inductions with new MSPs. We have a big plan to do much more on our visibility. One of the core objectives in the recruitment criteria for the two new commissioners is the ability to undertake communications and to help us to take that work forward.

Engagement is a challenge, but there are definitely steps that we can take—and that we have taken—to improve it.

The Convener: Thank you for your contributions this morning. Are there any further points that you want to make to the committee before we wind up?

Professor Roy: I will make one final point. This is Francis Breedon's and David Ulph's last appearance in front of the committee as commissioners before they retire. Speaking on their behalf—I am sure that they will endorse this—I would like to say that they have greatly valued their engagement with the committee and your critique and discussion of our work. I add my personal thanks to David and Francis for their work at the commission over the years.

The Convener: I fully intended to thank David and Francis for their contributions over so many years. It is quite a sad moment for us, but at least you will have the joy of the cuckoo clocks that Professor Roy will present to you when you get back to the office. I wish you well in your continued endeavours in the future months and years, and we look forward to seeing the new commissioners in due course. Thank you very much for all your contributions over the years, including this morning.

I thank all our witnesses, including Claire Murdoch. We will now take a break until 5 past 11.

10:56

Meeting suspended.

11:06

On resuming—

The Convener: Under the second part of our public agenda item, we will take evidence from the Scottish Government on "The Scottish Government's Fiscal Sustainability Delivery Plan 2025" and "Scotland's Fiscal Outlook: The Scottish Government's Medium-Term Financial Strategy 2025". I welcome to the meeting Shona Robison, the Cabinet Secretary for Finance and Local Government. She is joined by Scottish Government officials Jennie Barugh, who is the director of exchequer strategy; Richard McCallum, who is the director of public spending; and Lorraine King, who is the deputy director of tax strategy, engagement and performance. I intend to allow up to two hours for this session. Before opening up the discussion, I invite Ms Robison to make a short opening statement.

The Cabinet Secretary for Finance and Local Government (Shona Robison): Thanks very much, convener. I welcome everyone back after the summer recess; I hope that everyone had the opportunity for rest and reflection. I look forward to engaging with the committee not just today but through the rest of the new parliamentary term.

I thank the Scottish Fiscal Commission for its continued work, including its independent forecasts and the recent fiscal update, which provides valuable context and supports effective scrutiny of our financial planning.

This evidence session marks an important moment in our fiscal calendar, and I welcome the opportunity to discuss the Scottish Government's 2025 medium-term financial strategy and the accompanying fiscal sustainability delivery plan. Together, the documents set out how we will manage Scotland's public finances responsibly and sustainably over the next five years. Our approach is designed to support the delivery of the Government's four key priorities. That means making choices that focus spending where it has the greatest impact, supporting inclusive economic growth and ensuring a fair and strategic approach to taxation.

The delivery plan sets out the actions that we are taking to deliver on the four priorities, including how we will improve efficiency, how we will reform services and how we will maximise the value that we get from every pound of public spending.

We are taking decisive action to close the projected £2.6 billion resource gap and £2.1 billion capital gap by 2029-30. That action includes a managed reduction in the public sector workforce of 0.5 per cent a year, service delivery reform and investment in preventative measures to reduce long-term demand. We are preparing for a multiyear Scottish spending review to accompany the 2026-27 budget, which will provide greater certainty and transparency for public bodies and stakeholders and will support more impactful spending decisions.

On economic growth, we continue to deliver on our national strategy for economic transformation, with tangible progress in, for example, broadband connectivity, job creation and investment.

Our tax strategy remains focused on fairness and sustainability, with income tax decisions generating £1.7 billion more than if we had followed UK tax rates.

Looking ahead, we will publish the Scottish spending review, the infrastructure investment plan and the infrastructure delivery pipeline alongside the 2026-27 budget, which will provide further clarity on our priorities as a Government. I emphasise our commitment to working collaboratively with the committee, the Parliament and stakeholders across Scotland as we develop our approach. Subject to confirmation of the UK Government autumn budget date, I hope to be in a position in the very near future to discuss with the committee the proposed publication date for the 2026-27 Scottish budget.

Although the fiscal challenges ahead remain considerable, the actions that we have already taken, alongside the upcoming fiscal events later this year, give me confidence that we are taking the necessary steps to ensure that Scotland's public finances remain resilient and sustainable. I look forward to the committee's questions.

The Convener: Thank you for that helpful opening statement. One of the things that you said was that spending choices are being made where they have the greatest impact. On page 59 of the medium-term financial strategy, you say:

> "Considerable work has been undertaken since the 2023 MTFS to ensure public finances are focused on delivering the Scottish Government's priorities, underpinned by public sector reform. Actions across the 2024-25 and 2025-26 Programmes for Governments and associated Scottish Budgets have streamlined commitments and prioritised spending, while ensuring a balanced budget each year."

Given the emphasis on choice and prioritisation, what areas have been deprioritised?

Shona Robison: We have taken an approach that is very much focused on delivery. The priority areas that the First Minister set out when he came into office gave a greater focus to areas that are to be prioritised for the funding that is available to us. Within those themes, we have gone through all areas of spend in each portfolio area and pivoted to those priorities. A lot of that has required difficult decisions to be made about things that we cannot take forward and things that we might have to return to in the future should finances allow us, so that we can focus on the priorities and ensure that we can fund them.

It is fair to say that there is the opportunity in the fiscal sustainability delivery plan, through efficiency and doing things differently, to ensure that the money goes further, even with those priorities. That is what we have set out, to ensure that every pound that is invested is invested in the most productive way. That work continues—Ivan McKee is leading on that. I know that he is keen to come back to the committee and discuss those plans in more detail. I just wanted to assure the committee that that work has gone on in detail across all portfolio areas.

The Convener: If areas are being prioritised, there must be areas that are not being prioritised. Are there specific areas in any particular portfolio that are no longer being prioritised? Will you give an example?

Shona Robison: Let me give you one example, which was quite contentious. It was about how far we could go with free school meals. We have agreed to prioritise those children who are most in need, linking the further roll-out to those who are in receipt of the Scottish child payment. We will not be able to roll out the universal offer as far as we had perhaps initially wanted to, and we feel that, with our limited resources, we have to prioritise those children who are most in need. Rolling out free school meals to Scottish child payment recipients is a good way of doing that, and we know that it will help to continue to reduce child poverty levels.

That is one example. There are many others, but that is an example where the decision was a difficult one to take. We were criticised for it but, in a climate of constrained funding, we made that decision.

11:15

The Convener: You will always be criticised, but to govern is to choose. One area in which the Government has chosen to spend a higher proportion of its budget is in welfare. You say on page 45 of the MTFS report that

> "Social Security is an investment in the people of Scotland."

A number of ministers have been saying that for a number of months. What is the return on that investment and what is the opportunity cost of it? In other words, what areas cannot be funded because of decisions that have been taken to introduce additional benefits, for example? The abolition of the two-child cap in Scotland, which is understandable, will cost £194 million by 2029-30.

Shona Robison: We have discussed that issue previously in the committee. First, I would say that investing in the next generation to try to eradicate child poverty is an investment in the cohesion of our society. The fact that we are the only part of the UK with falling child poverty rates tells me that it is an investment that is worth making. We are investing £649 million in this financial year in the package of seven benefits and payments that are available only in Scotland.

Analysis by the chief economic adviser shows that our additional spending on social security could deliver a £300 million boost to GDP in

Scotland's economy in the short term. I guess that people spend locally, particularly when they are on fixed incomes and low incomes. That analysis has been undertaken.

Going forward, we absolutely need to ensure that what we do is sustainable. That is why the fiscal sustainability delivery plan sets out the steps that we will need to take to continue to afford our priorities. We see social security as an important investment. We need to continue to challenge ourselves on the delivery and ensure that, for example, Social Security Scotland is delivering in an efficient way. Work is going on in relation to the adult disability payment to assure ourselves that the assessment processes are correct. I am happy to share more information on that with the committee. The starting point, however, is that we believe that this is not just an investment that is essential for the future cohesion of our society but one that has an economic benefit as well.

The Convener: It is about outcomes and whether there is an increase in dependency culture. Social security assistance is increasing from £6.8 billion to £8.8 billion, so that is £2 billion that is not being spent on other programmes. My understanding is that local authorities are having to reduce non-statutory expenditure, which includes a lot of the things that would work to help reduce poverty. For example, in education, school assistants, community workers, youth workers and campus cops are all having to fall by the wayside. I believe that all members got an email saying that 61 per cent of 240 organisations said that they would have to either close or reduce their workforce. One very prominent third sector organisation in my area that helps people through debt advice, support for rent and advice on alcohol and gambling is having to reduce its workforce by 40 per cent.

Although money is going into poverty reduction, that can look two-dimensional compared with the big picture. If the money went to other organisations, that might help people get into employment, for example, or it might help them educationally or with debt and other difficulties. Is there not an issue with focusing on benefits? Of course, we are well aware that people need benefits, but the additional funding that has gone into that is in effect not available for other areas.

Shona Robison: That is a fair point of challenge. There must be a mixture of elements. For example, we know from all the analysis of child poverty that there are three pillars to tackling child poverty: money in people's pockets, services and support in kind—things such as childcare and wraparound services—and work and employability. Therefore, there is not one solution, but money in people's pockets matters, and all the analysis shows that the main driver of lower child poverty rates in Scotland is money in people's pockets through the Scottish child payment.

There is a lot of important work going on in relation to employability, particularly with regard to supporting families. A lot of discrete work is being done by third sector organisations, and that is having really good results—

The Convener: If I may stop you there, that work is having good results, but those organisations are also struggling to get additional funding from the Government. For example, on page 62 of the MTFS, it says that employability support has been provided for almost 72,000 people between April 2022 and September 2024. I am a big supporter of employability measures, because, frankly, having a job is the best way out of poverty. The more economically inactive people we can get into work, the better, and we need to understand that more than 100,000 economically inactive people actually want to work.

However, there is no information on the success rate of those measures—whether it is 5, 10 or 30 per cent—which projects work, what does not work, and how we can replicate successful projects and discontinue spend on unsuccessful projects. With regard to fiscal sustainability, you can sometimes get the best of all worlds if you invest efficiently and effectively in projects that have been proven to deliver. There are remarkably successful projects in my area, which Tom Arthur visited just a few months ago, when he was the Minister for Employment and Investment. However, there are issues with regard to whether the local authority, which is the primary funder of those projects, is able to sustain that funding.

Shona Robison: I agree that work is the best way out of poverty, and it is important that we acknowledge that there is a lot of in-work poverty. A lot of people who are in poverty are working, and some of the supports that we provide are helping to support people's household incomes. There is a wider debate to be had about wages being too low and whether the living wage is set at the right level. We have the statutory national minimum wage, and we have the Scottish living wage, but, for sure, we want to move to a higher-wage economy, because there are real issues in relation to in-work poverty, as we have discussed many times before.

With regard to the successes, each programme is analysed to establish its success rate, which will be based on how sustained someone's employment is—how long they remain in a job—so that information is available, and we can provide it to the committee, if that would be helpful. For example, approximately 20 per cent of participants in the no one left behind programme are economically inactive at their start date; they are then tracked through the programme to see their outcomes and how long they are sustained in employment. We can provide that information, and it is fair to say that that should be part of the analysis to establish whether a programme continues to be funded. We do not want to fund programmes that do not work.

Some of those programmes are quite discrete. For example, a number of them work intensively with women. The MsMissMrs programme provides a lot of intensive support and has good outcomes, but it works with people for a long time.

I should have said at the start that we should remember that 80 per cent of the funding that goes into social security comes from the UK Government through the block grant, and UK social security is also increasing. The additional investment on top of that funding is where the choice comes in with regard to things such as the Scottish child payment. The bulk of the funding comes through the block grant.

The Convener: Yes, I think that we are aware of that. The issue is around the seven additional social security payments that are available in Scotland and so on.

I know that 58 per cent of people on universal credit work, so your point about low-paid workers is well made. Obviously, when we have to mitigate the impact of UK decisions, whether it is the bedroom tax or the two-child cap, that money is in effect lost to devolved services, because we cannot spend it twice. Has any work been done to look at whether the unilateral abolition of the two-child cap in Scotland will have an impact on, for example, housing benefit for recipients or council tax relief? My understanding is that the Convention of Scottish Local Authorities is saying that there will be an impact.

Shona Robison: I know that there have been discussions with the UK Government to make sure that we can minimise any knock-on effect on other supports, as we did previously with the Scottish child payment, because we do not want a payment to be made on the one hand and for people to lose on the other—that is not right. Those discussions are on-going.

You are right about the wider point of mitigation. Frankly, I would much prefer that the bedroom tax went at source and that we could deploy discretionary housing payments in a different way, or that the two-child cap was mitigated by the UK Government, as we have been calling for, and so on. We have been calling for the UK Government to take those steps for that reason.

I should add that we welcomed the U-turn on the winter fuel payment. That will have a positive material impact on the block grant adjustment, which we will have confirmed in the autumn, but it will significantly reduce the £2.6 billion in spending cuts that we set out, because that predated the announcement. There will be an amendment to the projection, because it was projected to reduce by £440 million by 2029-30, I think it was.

The Convener: Yes, it is reductions to disability payments and so on that have been reversed.

I have one final point on social security, although it is not all about that. On page 10 of the fiscal sustainability delivery plan, you say:

> "Social Security Scotland will continue to pursue initiatives which increase its ability to tackle fraud and error where it does occur, including the recovery of overpayments. Fraud is often carried out by sophisticated and dynamic criminal actors."

However, a number of members of the committee were concerned by a piece that appeared in *The Scotsman* a few weeks ago, in which the Cabinet Secretary for Social Justice said that the Government would not pursue overpayments and indeed money that was fraudulently claimed. The figure of £36 million was mentioned. Alarm bells rang for many of us, I think. Can you clarify the Scottish Government's position? If it is accurate, that statement seems to contradict what is being said in the fiscal sustainability delivery plan.

Shona Robison: I will have to have a look. I am not aware of that article, convener. Where there is criminality, we would expect it to be pursued. However, I want to be accurate with the committee, so I will come back on that. We certainly would expect to make sure that there is full deterrent and that recompense is pursued, particularly if organised crime is involved, as we know that vulnerable people are often preyed upon by criminal gangs in this space. I will come back with clarification on the article.

The Convener: Thank you very much. Let us switch to the capital spending outlook. It is of great concern to me and, I am sure, to others that, since the pandemic, we have had 27 per cent inflation in construction materials, which is quite shocking, coupled with a 4.3 per cent real-terms reduction in the UK capital block grant over the period 2022-23 to 2024-25. Clearly, that dramatically reduces the Scottish Government's ability to invest in infrastructure, whether it is new infrastructure, maintenance or on-going projects, and it is leading to a backlog in maintenance across the public sector. I understand that there will be a 1.8 per cent real-terms reduction to 2030 as we move on.

We have been waiting with bated breath for a while now, but we are going to get the capital pipeline in December. What are the implications for the Scottish budget and capital investment as we go forward?

11:30

Shona Robison: As I said in my opening statement, we will be setting out a lot of the material in and around the budget periods. It is fair to say that we have been disappointed with the spending review on a number of levels, with the capital position in the block grant growing by 0.3 per cent compared with 1.8 per cent for all UK departments. Essentially, that means that we will have a declining level of capital available to us.

Bearing in mind, too, the point that you have just made about the costs of construction going up, all of that means that we will be required to prioritise the pipeline that we bring forward. We will not be able to do everything now. Clearly, we have already made some commitments and priorities around, for example, affordable housing—indeed, the Cabinet Secretary for Housing will be making a statement later today on that—but we will have to make some difficult decisions. We are looking at the options that might be available to us; for example, we are looking at how we might use revenue-based finance in an appropriate way to fund projects that would otherwise not be funded.

The capital outlook is disappointing. There has been a bit of growth in financial transactions, which is welcome—we use them for housing and the Scottish National Investment Bank—but the overall direction of capital is disappointing, to say the least.

The Convener: You have said that the growth in resources in real terms will be about 0.8 per cent rather than the 1.2 per cent for UK departments. That is a difference of 0.4 percentage points, which is very significant—about £200 million or £300 million a year. What are the long-term implications of that for the budget?

Shona Robison: The 0.8 per cent a year is lower. I think that average growth is 1.5 per cent for UK departments; had the funding for that day-to-day spend grown in line with the UK Government's overall spending, we would have had, I think, £1.1 billion more to spend on our priorities over the next three years.

The situation is without a doubt challenging, which is why we have set out what we have set out in the fiscal sustainability delivery plan—that is, the need for us to reform and to drive efficiencies, particularly in relation to corporate costs. Incidentally, the UK Government is doing exactly the same on workforce and corporate costs, but we are very constrained.

I know that, in its report, the committee made a very timely point about the constraints of the fiscal framework—I could not agree more with that. As of yesterday, we have a new Chief Secretary to the Treasury; I have had a meeting with my Northern Irish and Welsh counterparts, and we are keen to engage quickly, because there are a number of issues in train. One is a more fundamental review of the fiscal framework, which we have asked for and want to pursue. However, there are other short-term changes that could really help. For example, being able to borrow more than would just cover the cost of reconciliations would help to smooth out particular peaks and troughs.

There are a number of real constraints in the fiscal framework, and it is time that we addressed them. We do not want to wait until 2028, which is the next formal review period—we are keen to pursue the issue as early as possible.

The Convener: Because you mentioned the fiscal framework between the Scottish Government and local government, I will ask you a wee bit about that. I was not going to do that, because there are millions of other things to ask about, and I only have another five or six minutes before I have to let the rest of the gang in.

My understanding, from speaking to COSLA earlier this year, is that local government had hoped that that framework would be signed off in February or March of this year, but we have not really heard anything. Where are we with the fiscal framework?

Shona Robison: In practice, and leaving aside the formality of it, the fiscal framework underpinned much of the discussion with local government in the lead up to the 2025-26 budget. There was early engagement, with no surprises and with an open-book approach. That was how we conducted discussions and negotiations for the 2025-26 budget, which may be why that budget received a more positive response from local government than budgets had in some other years. The Accounts Commission has confirmed that there has been a real-terms increase in local government funding for two years in a row.

There have been issues with formal adoption and with the desire from local government to have a rules-based framework, but that has been only one aspect of our discussions, and we have agreed on 95 per cent of everything. I wrote to local government, asking councils to agree on the 95 per cent so that we can codify elements of the framework and can follow the same principles with the 2026-27 budget.

I do not want to put words into local government's mouth, but I think that formal adoption has been held back by the issue of rules-based funding. We have spoken about that here before: we do not believe that we can agree to that because there are so many unknown quantities with a rules-based approach. For example, it would already have been blown out of the water because of the change to employer national insurance contributions, which that approach could not have encompassed. Would a rules-based formula apply only when it suited and not when it did not? Local government was given a lot of money following the decision to fund a portion of those contributions. That is one example, and there are many others, of ideas that sound good but that unravel very quickly in practice when there are issues such as ENICs.

We are asking local government to codify the good stuff, including the open book, early engagement and the way that the budget has been handled, because that has led to a good result. I think that we should be able to bank that and to move on.

The Convener: I will ask about just one more area. Page 4 of the fiscal sustainability delivery plan document says:

> "The MTFS sets out a number of significant risks facing the public finances over the medium term, which need to be managed."

One of the four risks listed is

> "persistent inflation, impacting public spending in a number of ways, including on pay, which is exacerbated by a proportionately larger public sector workforce than the rest of the UK".

Much of that is surely the responsibility of the Scottish Government, which has presided over the increase in that workforce, and comes from the fact that people working in the public sector in Scotland are paid better than their equivalents down south.

Shona Robison: One reason for the major increase in head count has been the increase in responsibilities that came from the devolution of large areas of welfare and the growth of Social Security Scotland. There are other areas too. There has not been growth across the board: the big growth has come from areas—

The Convener: The public sector still contains more than 22 per cent of the workforce, compared to 17 per cent down south, and salaries are still cumulatively about £1.3 billion higher than the equivalent figure down south.

Shona Robison: You are right—it is a bigger public sector, but we have things in public ownership that are not in public ownership down south, which I would argue is a good thing. There are major differences in what is under public ownership: for example, Scottish Water and ScotRail. If you strip all those things out, there is a closer comparison. However, the point is that we need to address issues in a way that prioritises and protects the front line. Similar to the UK Government, we have placed a particular focus on corporate costs, admin costs and savings, which the delivery plan goes into in detail.

There is a balance to be struck when it comes to pay and industrial peace. We set out a 9 per cent rise over three years, and the requirement is that any pay deal that goes beyond 3 per cent in year 1 has to be multiyear. A lot of the deals that have been secured have been multiyear, which is good. I accept that many of them are over two years rather than three, but it buys peace for two years in many front-line services, which is a good thing. I have looked at the position of the UK Government, which has a pay policy of 2.8 per cent, but the pay review bodies are recommending rises well in excess of that. Either you accept the pay review body recommendations or you do not. If you do not, you are straight into facing industrial action and difficulties.

There is always a balance to be struck, and we have a very tight set of arrangements across the Government. Proposals for pay offers are put through a system: we check for contagion effects and fairness, and we ensure that they will not have a negative effect elsewhere. In the light of inflation not coming down as quickly as was projected, we have also included commitments to reopen discussions on some of those deals should inflation spike beyond what is predicted. Some of those commitments have helped to get deals across the line. To be honest, those deals are more of an art than a science. Having been in the room for deals several times, I know that it is about getting to the best place that you can in order to avoid costly industrial action.

The Convener: I appreciate that, but the document says that

> "controlling the public sector paybill through managing pay growth and the devolved public sector workforce"

is important, along with "workforce planning".

Over the past five years, the public sector workforce has increased annually by 1.6 per cent on average, but pay has never really been kept within the set parameters. How can you plan a workforce if you do not have the ability to bring in compulsory redundancies? For example, you might have people whose skills are no longer appropriate, but despite being on redeployment, they might ultimately not even be redeployed. It means that you cannot keep people whom you want to keep, because you have to cut the budget, and they end up getting voluntary redundancy when you do not really want them to. It seems to me that a lot of what is being set out in the plan is laudable, but there is no precedent from recent years of such aims being deliverable, and there is no evidence that they will be.

Shona Robison: Let me be clear: the 0.5 per cent annual reduction absolutely has to be delivered and it will be. Ivan McKee, the minister leading on that, is looking at the plans for all parts of the public sector and what is required. Public bodies have a level of independence, but they are required to deliver the same targets. Within that, there is a 20 per cent reduction in admin costs, which will drive reform and the sharing of services, including corporate services in particular, and that work is moving forward at pace.

The reduction is not a nice-to-do question mark or a case of saying, "If you can get around it, please do," but a requirement that we have to deliver on. However, within all that, we want to prioritise the front line, so there will still need to be recruitment in some front-line services, particularly in the health service. What is important is to deliver reductions in the right places in a managed, proper way.

11:45

On your point on compulsory redundancies, to be clear, we want to avoid those. However, as part of the process, if an organisation has gone through all the steps that are required, and looked at every possibility for voluntary severance and redeployment, but it cannot finish the job because people either cannot be redeployed or do not want to take voluntary severance, compulsory redundancy is a backstop option.

You will have seen from some of the coverage that VisitScotland has been in that situation. It has been working on that with the unions. When it became obvious that compulsory redundancy was the backstop, a lot of people who had not previously applied for voluntary severance did so.

It is important that organisations understand that that is the last resort. However, through the tools of voluntary severance and redeployment, I am confident that we can meet the targets in a way that avoids compulsory redundancy, if the process is carried out in the right way, through the work that organisations are required to undertake.

The Convener: Thank you for that. I open up the session to questions.

Craig Hoy: Good morning, cabinet secretary. The convener has identified a number of the very real risks that run through the fiscal delivery plan. However, obviously, you are setting significant store on making savings of £2 billion—£1 billion through the public service reform targets that were set out by Ivan McKee on 19 June. When he made his statement to the Parliament, he said that his plan was "rooted in realism", but

"not in a headline-grabbing way that simply throws out random targets".—[*Official Report*, 19 June 2025; c57.]

You will be aware that we have received, through a freedom of information request, a significant body of paperwork relating to the preparations for that announcement. One key element that stands out is that there were significant concerns among both the civil servants and your Cabinet colleagues about the ability to achieve that £1 billion. I draw your attention to paragraph 17 on page 3 of a document that we received, which was dated 22 May, from the directorate for public service reform. It says:

"We have set out ... that there is not a specific breakdown of the £1 billion target and there is an element of risk in this approach."

Was that "rooted in realism" or simply written on the back of a fag packet?

Shona Robison: I assure you that it was not written on the back of a fag packet. Anyone who knows Ivan McKee would know that it would be far from that. He is very methodical and detailed, which is not always welcomed but is the right approach to take, and—

Craig Hoy: Can I interrupt for a second, minister? Paragraph 21 says:

"There are risks in this approach, in that we are setting a stretch target"—

that is, a very ambitious target—

"and cannot, at this time, fully set out to the Minister where the savings will come from. The key issue for this strategy is ensuring the Minister is content with the level of risk between what is fairly secure"—

it has not been tied down—

"and what is assumed to come through the commitments in the strategy."

It is not a clearly set-out plan, is it?

Shona Robison: There is risk with everything. There is a risk in getting up in the morning. However, if we do not make change and are not ambitious, we will not be able to deliver what needs to be delivered.

We have already made progress, which gives me confidence that that level of ambition will be delivered. For example, the programmes that have already been working have saved just over £320 million over the two-year period to the end of 2024-25, with projected savings of nearly £300 million over the following two years. We are focused on the single Scottish estate, the national collaborative for procurement and digital programmes, and on securing commercial value for money, cost avoidance and cash-releasing savings. We have a track record. We are not starting from scratch. A lot of that has been driven by the work that Ivan McKee and his predecessors have undertaken.

As I said, the reduction in costs is not optional or simply something that will be nice to do if we can get round to it. It is a requirement, and each part of the public sector, whether it is the civil service or a public body, will have to set out how it is going to contribute.

I reassure members that Ivan McKee is monitoring progress weekly and that returns are scrutinised. I am sure that he would be happy to come to the committee and set out some of the detail to provide assurance on those processes—he is keen to talk to the committee about that. Nevertheless, the process has to happen, because the outcomes will mean that we can sustain investment in our public services on the front line.

Craig Hoy: As anybody who has run a business will realise, however, the first 5 per cent of savings is the easiest to achieve; it gets tougher as you cut in.

Shona Robison: Yes—it gets harder.

Craig Hoy: You have achieved £300 million of savings, and you are now proposing a figure of £2 billion. I want to look at some of the risks that your civil servants have identified. The document that I have says:

> “There is a risk that by focussing workforce reductions on corporate functions we reduce capacity to develop and implement the changes required within functions to deliver savings”.

Effectively, that means that if you get rid of those people, you potentially get rid of the capacity to make the efficiency savings that you desire to make.

Shona Robison: I do not wish to be cheeky, Mr Hoy, but your party’s press releases, and your lines of inquiry, have often been about admin and corporate costs. If we all agree that there is space to reduce those costs, that obviously has to be done in a way that enables transformation. I will give an example. We met with the Scottish Government’s digital team, who are rolling out a lot of excellent work to help their colleagues in many parts of the public sector to do things differently using automation and smart technology in order to save money. It would make no sense for us to reduce the Scottish Government’s digital capacity in the areas where the team is doing that.

However, the truth is that, in the long run, without a doubt, it is not sustainable across our public sector for each public body—the number of public bodies is quoted to me regularly, including in this committee—to have a human resources department, a payroll department and so on. Our default assumption, therefore, is that we need to move to shared services. Some front-line services can be shared, and we want to encourage that as well. However, with regard to the corporate costs, there is without a doubt the ability to make savings there.

The Oracle investment that we have made in the Scottish Government enables a range of public bodies to be onboarded so that they can be provided with that service rather than having to invest in new up-to-date systems.

There is a lot happening in this space—it has to happen, and it is being monitored within an inch of its life. I suggest that the committee invites Ivan McKee to tell members in great detail about the work that he is undertaking, because I think that that will provide further reassurance.

Craig Hoy: Fine. I will move on from the subject in a couple of seconds, but first I note that one bullet point in the document—unfortunately, the Government’s commitment to transparency is such that it has been redacted in part—highlights to the minister that

> “As you will be aware from your bilateral meetings, a number of Cabinet Secretaries have raised considerable concerns”.

What were those “considerable concerns” about announcing £1 billion in public sector efficiency savings?

Shona Robison: Each cabinet secretary will have a duty to point out areas in their portfolios where it might be difficult to deliver savings, change the culture and bring public bodies round to a different way of thinking. We need to ensure that programmes are being developed and delivered in an intelligent way—not through a salami-slicing approach—so that those things can happen. The administrative function is important, but it has to be streamlined and delivered in a sustainable way; otherwise, we cannot invest in our public services.

Quite rightly, and as you would expect, those cabinet secretaries will have highlighted things that will be challenging to deliver in their portfolios. The outcome of those discussions will be to find a route forward to ensure that any concerns are addressed as far as they can be. Change is difficult.

Craig Hoy: Would it not be better, logically, to announce the £1 billion figure after you have had all those discussions and identified where the savings are to be made? To return to the initial point, the “headline-grabbing” announcement is not “rooted in realism”, is it?

Shona Robison: I was involved in meetings on a daily basis with Ivan McKee and colleagues in the run-up to the publication of the MTFS and the fiscal sustainability delivery plan. Those discussions had already taken place and had gone into great detail, and they are on-going in relation to the collective responsibility to deliver savings, which is not just my job or Ivan’s job, but everybody’s job.

Those discussions happened and went into great detail in advance of the publication of the plan. In the end, however, it is the Government's plan, and it is everybody's responsibility to deliver it. That is what will happen.

Craig Hoy: The document also reveals that there is concern among officials about the limitations of the data that has come forward from Government agencies in respect of their cost base. Under the heading "Context and Issues", the paper says:

"The rationale for the £1 billion is based on the data commissioned from public bodies last summer and then applying a 20% reduction against the corporate function costs. The Minister is aware of the limitations of that data".

The paper goes on to say that you therefore simply cannot forecast forward from that. Are you aware of the limitations of the data that your Government holds in relation to the expenditure of those agencies?

Shona Robison: Richard McCallum may wish to come in on this point. A lot of the data has been interrogated to ensure that it is up to date and robust. A lot of commissions have gone back out to organisations to check the veracity of the information and to ensure that it is accurate.

Richard McCallum (Scottish Government): The specific point relates to the definitions of what is front line and what is back office. The committee raised that point earlier with the SFC. Part of the further interrogation that we have done with public bodies has been to ensure consistency, as best as possible, in how those definitions have been applied. Public bodies' roles and what they provide are very different across the public sector. We have done additional work to achieve consistency in what we genuinely assess as back office and what is front line.

Craig Hoy: Is that work completed now? Do you have clarity on that?

Richard McCallum: Yes. We have been back through it with public bodies over the summer, and some of those discussions will continue. One of the key points, in advance of the spending review, is to have things set out and clear as portfolio allocations are made.

The work is largely complete now, yes. We are doing some follow-ups with individual portfolio areas. As I say, that work will be concluded well in advance of the spending review.

Craig Hoy: This question is more about the costs between now and the end of the decade. You have set public pay policy at 9 per cent over the next three years. In the first two years, the figure has exceeded 7.4 per cent in some areas. Obviously, you will not be in post, but, thinking beyond the election, how rigid will the Government be in the remainder of the public sector pay negotiations? Are you now saying that, if the level is presently running at 7.4 per cent, then 1.6 per cent is the limit, or are you willing to breach your own public sector pay policy?

Shona Robison: As I said earlier, public sector pay and negotiations are the art of the possible. Pay policy seeks to provide a guide to negotiators to constrain and set expectations as far as possible. It cannot predict the outcomes of pay review bodies, however—and we have no input into that. Those are UK pay review bodies, and they tend to drive pay.

There is an issue there in terms of how pay review bodies operate. We have no way of inputting into them, and we often find out what the recommendation is just as it is announced. That drives pay, because it is then very difficult to say, "Well, we're going to ignore the independent pay review body down south," when it is essentially a driver for pay. The UK Government is in exactly the same position. It is far from ideal. We need to look at how that operates in practice.

12:00

We said very clearly that if it was going to be a single year deal it could not be more than 3 per cent. That was very important as it drove multiyear deals. The unions on the staff side recognised that if they wanted to have a higher first year, it had to be part of a multiyear deal. That enables—

Craig Hoy: But—

Shona Robison: Let me finish this point. Having that three-year horizon enables two things. First, as I said earlier, it enabled us to buy some peace and predictability. Secondly, it enables space for reform. When you are not back in the room negotiating pay again, you can actually look at some of the reforms in terms of who does what, changes to roles and so on. That is really important in the reform space that we have just been talking about.

I think that the multiyear deals have really helped. We built in a bit of contingency to help portfolios with their pay deals, but, at the end of the day, a judgment has to be applied that the cost of industrial action on a day-to-day basis is really expensive and disruptive. I think that we have got to quite a reasonable place in this round of pay deals—we are not quite out of the woods yet, but I think that the multiyear landscape has been really helpful.

Craig Hoy: But surely if you set a 9 per cent pay policy and you are at 7-plus per cent after two years, with inflation running at more than 3 per cent—and it could be higher or lower by the time that we get to the third year of the negotiation—

you are effectively saying that your negotiating position is nil, because you are not willing to countenance strike action. Therefore, the public sector unions have you over a barrel, have they not?

Shona Robison: We have never said that we will not countenance strike action.

Craig Hoy: You have a presumption against it.

Shona Robison: We have seen industrial action in local government previously, and it was costly and disruptive. We need to see where inflation lands first. We have to do this in a context where inflation is predicted. However, it is not a science, and we can see the impact of inflation not going down as quickly as was predicted. That has an impact on negotiations straight away. When we set our pay policy, as the UK Government has done, we set it with the best information that we have at the time. We cannot predict where inflation is actually going to go; we can only rely on OBR forecasts and so on. Therefore, there has to be some flexibility.

In reality, I think that where we have got to with pay deals is better than where we have been previously. That is because of some three-year and, in the main, two-year deals. They give us some space and some certainty for the next two years, during which we can spend the time talking about other things.

Craig Hoy: Lastly, you have made a virtue of the fact that Scottish National Party policy is to have a larger public sector than the rest of the UK and for that sector to be paid better than it is in England. Would you be willing to look at that pay differential between Scotland and the rest of the UK and shrink it, rather than shrinking the amount of money that you are spending on public services, which is the logical outcome unless you tackle public sector pay?

Shona Robison: I think that we should have fair pay, and I think that in Scotland, through reaching deals with our workforces, we have avoided some of the costly industrial action that there has been in the health service down south, for example, where the costs to the system and the impact on patients have been very disruptive indeed. We wanted to avoid that.

Where possible, though, we want to link pay to reform. A lot of our discussions have been about getting to a place of willingness to look at roles and responsibilities. The agenda for change negotiations have been very complex, but they have given us the option to look at reform. Some of that has been linked to contracts, the working week and so on.

I am not setting out with an ambition to have higher rates of pay in Scotland for the next decade on a point of principle. However, I think that the investment that we have made in public sector pay has managed to avoid a lot of costly industrial action. That investment has to be affordable, though, and there is a trade-off between pay and head count, without a doubt. There is a need for us to manage the size of the public sector to a place where it is affordable in the long run, and the need for us to make changes there is why we have set out the plans that we have set out.

Michael Marra (North East Scotland) (Lab): Good morning, cabinet secretary. I will start with the spending review. The Scottish Fiscal Commission has set out that there will be a gap of £2.64 billion by 2039-40 between projected income and your expenditure plans. Will the spending review close that gap?

Shona Robison: We have set out in the fiscal sustainability delivery plan a five-year horizon for closing the £2.6 billion gap. As I alluded to earlier, that figure predated the welfare changes—the very welcome U-turns by the UK Government on welfare—which will bring the gap down by a significant amount, but we cannot confirm that amount until autumn. I will probably update the committee in due course about what we are looking at in that respect.

The five-year fiscal sustainability delivery plan sets out how that will be. The spending review will have to have synergy with that in order to be able to set out the spending envelopes that will be in tandem with that plan. Of course, within the spending envelopes, there will be changes—for example, changes to the prioritisation of front-line services and reductions in administration costs—but all of that will take place within the spending envelopes. The spending envelopes will not reduce, but what is done within that spend will change to put them on a sustainable footing, if that makes sense.

Michael Marra: That is very useful. So we will expect to see a series of departmental plans about what they will be doing and what they will stop doing over the three-year period.

Shona Robison: The envelopes will, in essence, set out the spending priorities and spending plans of the Government. The Scottish Fiscal Commission also said that it would encourage the Opposition to do likewise. The SFC seems to be saying clearly, for example, that if, given that we are heading towards an election, there are views that those spending plans are not correct and that some of that money should be shifted, that would be an opportunity for others to set out different spending plans. That is absolutely right.

Michael Marra: With regard to the Government's priorities, I suppose that I am trying to examine how much detail we are likely to see in the spending review, which I think the committee is interested in. The fiscal sustainability delivery plan has headline numbers, but there is not an awful lot of detail below them. Will we see in the spending review a list of things that the Government will stop doing?

Shona Robison: Essentially, you will see where the priorities are in terms of the envelopes and growth of funding. We will clearly set out our priorities within that. We will do that for resource, and we will also set out our capital plans in the infrastructure investment pipeline. All of that will be set out.

We are keen to give as much certainty to stakeholders as we can by using that multiyear horizon. As I have said in the committee before, certainty of funding is sometimes as important as the quantum, so we will set out as much detail as we can. We are considering the level of detail that will be provided; we want to provide an appropriate level.

The only other thing that I would add is that we also need to say what might emerge in the autumn budget. We can set out what we are able to at that point, but external events can have a very disruptive impact. I do not think that there has ever been a set of UK spending review spending plans that was delivered, so I give the caveat that what we set out will be based on the information that we have at the time.

Michael Marra: Events will change decisions at the time; I would not expect anything else. However, our concern is that we want to see a level of detail that we can understand on a policy level. Do you now have proposals from your cabinet secretaries in front of you? We are about three months out from the finalisation of the spending review. The UK spending review took 14 months to complete. I understand that you have a more truncated period and that there is a challenge in that, but are you now saying to cabinet secretaries, “No, I don’t agree with you—you have to do less of that; you have to do more of this”? Is that the stage that you are at? Do you have proposals in front of you?

Shona Robison: We have been working on this for many months. Particularly over the summer, we have been working more intensively in meetings and discussions, some of which have been at official level—Richard McCallum might want to say a bit more on that—but I have had direct bilateral meetings with colleagues on shaping priorities in relation to resource and capital. Therefore, yes, that level of detail has been discussed.

Michael Marra: Was it a zero-based budgeting approach? We have talked about that previously, and I believe that that is what the UK Government undertook.

Shona Robison: We are not starting from the point of view of saying that everything is on the table but 1 per cent might be at issue. Everything should be challenged. The principle is that we have to challenge each other. If everything is committed, there is no room for change. However, there are clearly key priorities that are big spending areas. Health, local government and social security are the three big spending areas that constrain spending on everything else to a much smaller spend.

The work on health and social care reform will be important to ensure that the £21 billion that was allocated to health and social care for 2025-26 is spent in such a way as to reshape and do things differently. It will not be a great surprise that we have a commitment to maintain health spending and to pass on all consequentials, so there are some certainties in that big spending area. We need to manage expectations: we are not going to massively reduce health spending; the question mark is over how that money is spent and what it delivers. Richard McCallum, do you want to say more about process?

Richard McCallum: Yes, sure. In answer to your question about the zero-based budgeting review, Mr Marra, we are going through every level 4 in every portfolio in relation to areas of spend. Each portfolio has first been asked to do its own analysis, and we have done further work from there. Some of that happened before the UK Government’s spending review, so this is not a short-term exercise but work that we kicked off when we knew that there would be a spending review in June. Obviously, that work has ramped up since we got the outcome of the UK Government spending review in June, and we have used the time over the summer to do further interrogation of individual portfolio plans.

As the cabinet secretary mentioned, some of those discussions have also involved ministerial engagement.

12:15

That is the approach that we have taken. As Professor Roy stated earlier, in some ways, the spending review is more about the process and having a good work-through. I would go further than that and say that, although the December conclusions, when published, will be key, the process will go beyond that as well. Working through the impact of the spending review and taking it on from there will be key. If we are in a cycle of spending reviews every couple of years, that will certainly help.

Michael Marra: That is great—thank you. I am sure that the committee appreciates the detail that you can provide on that.

Cabinet secretary, I turn to the concern regarding the sustainability of the tax base in Scotland, which is shared by the SFC and the committee. We want to see good, well-paid jobs in Scotland. You will have noticed the announcement from the UK Government over the weekend of the £10 billion deal that has been struck with Norway to deliver frigates, which will secure thousands of jobs on the Clyde for years to come. I have not seen a response from the Government on that. Is it something that the Government welcomes?

Shona Robison: Absolutely. Investment in defence of that nature that secures well-paid jobs in Scotland is crucial. We all recognise the importance of national security and see it as key, particularly in an uncertain world, so absolutely—

Michael Marra: That is good to hear. The context is the rise of Putin, the war in mainland Europe and the threat in the North Sea as a result. Do you think that it is right for the proportion of UK spending on defence to increase?

Shona Robison: We would want more spending on defence in Scotland. For example, "Government Expenditure and Revenue Scotland" shows a disconnect between what was attributed to spending on defence in Scotland and the actual spending on defence. Anything that can remedy that by having investment in defence industries in Scotland is to be welcomed.

We would have some caveats to that. You gave an example of ships that are absolutely needed for defence purposes. There are some areas of defence that we would be less keen on. Obviously, spending on nuclear weapons is one such area, but in terms of spending on conventional defence—

Michael Marra: What about munitions? The Government's position seems to be that it supports the boats but does not support the munitions that go with them. Is that the case?

Shona Robison: We are not a pacifist Government at all. We believe that we should have spending on defence in the right areas, securing Scottish jobs. There are concerns about any defence companies that might have interests in weapons that find their way into areas that we would, I presume, not be too happy about and are concerned about—I am thinking about the position in Gaza at the moment.

There are areas to be differentiated, but the example that you used of Norwegian vessels is the sort of area where we would want growth in defence.

Michael Marra: So is that a yes? You are keen to see an increased proportion of UK spending going towards defence to meet those aims.

Shona Robison: I think that we have already said that. At the time when that measure was announced, we recognised that there would need to be an increase in defence spending on the right things. Our contention is that some of it is not on the right things. You could swap out the huge, eye-watering projected spend on nuclear weapons and spend that on defence forces.

Michael Marra: I recognise that. We will stick with the big figures, though.

Shona Robison: There is a question about considering what happens within defence spending, rather than taking money from welfare into defence spending, for example.

Michael Marra: In your response to the comprehensive spending review, you said that

> "real terms growth of 0.8% a year for our overall Block Grant ... is lower than the average for UK Departments."

How do you square those two things? How can you think that the overall proportion that goes on defence should grow but that we should maintain the proportion for non-defence-related areas?

Shona Robison: The point that I was making is that the average increase for UK departments is across all departments. The increase for Scotland was much less, at 0.8 per cent. That is also lower compared to Wales, for example. It depends on the configuration of where spend in departments has gone up or down.

Michael Marra: I agree with that. However, if you want there to be an above-average increase in defence spending, how can you make the argument that you want to have the same average increase for devolved capacity? Do you want defence spending to grow faster or not?

Shona Robison: A lot of the defence expenditure was in capital spending, not resource spending. I am talking about day-to-day resource spending, which is where the figure of 0.8 per cent compared with 1.5 per cent for UK departments comes from. I am talking about resource spending, not capital spending. It is the day-to-day spending that matters here. We have come off very poorly because of where the reserved and devolved areas are.

Michael Marra: You will recognise that, at a Treasury level, the Government has to make decisions about where it spends the entirety of its budget.

Shona Robison: You have just been asking me about our spending choices—

Michael Marra: Those are comments that you have made about the comprehensive spending review, cabinet secretary. It is about the entirety—

Shona Robison: I do not think that we got a good deal out of the comprehensive spending review, either on resource, with the 0.8 per cent increase, or on capital, with the 0.3 per cent increase—even compared to other devolved nations. There is an opportunity cost in the £1.1 billion of resource that we could otherwise have had. Those small margins of difference matter to the budget. That brings us back to the point about some of the difficult decisions, because having that resource would mean that there would be £1.1 billion less that we would have to find in the sustainability plan, which would make the spending review a lot easier.

This is about the fiscal framework. FPAC, which includes you, has produced a report that puts some questions about the limitations and the constraints of the fiscal framework. That is probably an area that we could all agree on.

Michael Marra: That is fair.

In your response to GERS, you claim that, in 2023-24, only £2.1 billion of defence spending was actually spent on industry in Scotland. Do you recognise that 75 per cent of defence spending goes on personnel, of whom there are more than 14,000 in Scotland, which is not included in the figure that you used?

Shona Robison: The point that I was making—and it is not just in defence; it relates to other areas as well—is that the notional figures that are attributed to spend in Scotland do not always accord to the actual spend on the ground. Those two things do not equate. There is a notional allocation and then there is the reality on the ground, and there is a mismatch there.

Michael Marra: You are not including the 14,000 people who are employed in Scotland in that figure of £2.1 billion. That is about money that is attributed to industry, rather than the global figure on defence, isn’t it?

Shona Robison: I thought that the figure included personnel, if you could locate them. That is a difficulty as well, because personnel are located all over the world and trying to extrapolate the Scottish spend is quite difficult. However, there was a mismatch of, if I remember rightly, £2 billion that cannot be reconciled. We could talk about GERS all day, but our contention is that the notional element does not bear a relationship to the actual spend—not just in defence but in other areas as well.

Michael Marra: My contention is about how you are representing your support for increased defence spending while, at the same time, opposing it in a variety of ways on the basis that you claim that you are being short changed in public spending when, in fact, the money is not being attributed on the basis of personnel in Scotland and, overall, the defence budget has to rise faster than the rest of expenditure. I do not understand the Government's position—it cannot claim that both of those things are consistent at the same time.

Shona Robison: The point that I was making about the spending review was that, when it comes to day-to-day resource spending—and I note that most of the defence spending is on capital, so it is not part of resource spending—our increase in such spending is significantly less than the average for UK departments, and it will have a direct impact of £1.1 billion on our day-to-day spend. I have heard commentators who are by no means supporters of the Scottish Government or the SNP confirming that that mismatch of average increase in spend will have an absolute direct impact on our budget. Leaving aside the defence issue, I am afraid to say that that is the fact, and I regret that.

Michael Marra: I want to close on an issue that is directly related to revenue spend. Since 2019, when the Government declared a public health emergency on drugs deaths, more than 6,000 people have died in Scotland. As has been announced today, that is still the highest rate in Europe. It is an appalling record. In the 2024 budget, you made a real-terms cut to alcohol and drug partnerships. Do you think that that decision will be reversed in the forthcoming budget? Is it a decision that you regret? Given that we are talking about a spending review and setting plans for the coming years, is there going to be anything in that spending review that will set out a plan to deal with this horrific national record?

Shona Robison: First of all, this is a concern for everybody, not least me, given that I represent a city where drug deaths have been a huge issue of concern.

A lot has been done in this space. We have the national drugs mission, which has been backed up by, I think, £100 million of additional funding, and there is now a lot of really important practice with, for example, the investigation of near misses and the roll-out of naloxone. Over the past five years, there has been a real improvement in the intelligence in this area of public health and in the rolling out of practice that has been shown to work.

Is there more to be done? There certainly is. Although there has been a reduction in drug deaths according to this morning’s statistics—as I understand it; I have not seen them—we still have a long way to go to ensure that we move on from the situation you have described.

Michael Marra: Is this the kind of policy change that you want to see driven through the spending review? It brings me back to the questions about change: given that we do not want to have the worst drug deaths record in Europe—and despite our having the same drug laws as the rest of the UK, we have a much higher proportion of drug deaths—are you going to tackle the issue in the spending review? When you have those conversations with departments, is it something that you are going to say is a priority and an issue where you want to see change? For instance, is there a proposal on the table about which you, Mr McCallum and others have had conversations? Have you said, “We think that this is a massive problem. It needs to change, and this is what we are going to do about it”?

Shona Robison: We need the right policies. There is not one single policy that we can put in place here—it is a mix of policies. The measures that I have described—which include the drug consumption room and other forms of practice such as ensuring that people are seen quickly when they ask for help, and the medication assisted treatment standards—are all having an impact. There is no one solution here. However, the things that have an evidence base showing that they work need to be properly funded, and that is why there has been an increase in funding.

Michael Marra: There has been a real-terms cut.

Shona Robison: If there is a requirement for an increase in funding to do more in that space, that will, of course, be a key priority for the Government, but it is all about what is being done and ensuring that the money is spent on effective interventions. All that I am saying is that those effective interventions are in a better place than perhaps they were a few years ago in having an evidence base.

If you have suggestions, Michael, of things that we are not doing at the moment and which you say would work, I would be very happy to hear them, and I am sure that the Cabinet Secretary for Health and Social Care would be willing to hear them, too. However, I think that we know where the effective interventions are, and we need to ensure that they are happening everywhere, that people can get assistance when they ask for it, and that we tackle the wider poverty issues that we know drive addiction not just to drugs but to alcohol.

I am all for having that discussion. If you want to follow up with some suggestions and discuss the matter in a very constructive space, I am all for that.

Michael Marra: Thank you.

12:30

Ross Greer: Good afternoon, cabinet secretary. You said—either in your opening remarks or in one of your initial answers to the convener—that the Government’s goal is for every pound to be invested in the most productive way, but I struggle to accept that in the light of the examples that I have raised with you previously, the most obvious of which is the small business bonus scheme. The premise of that scheme is that it is appropriate to spend in the region of £0.25 billion giving support to small businesses in the form of tax relief. Three years ago, the Government commissioned an independent review of that scheme, and the Fraser of Allander Institute could find no evidence that it had had positive economic outcomes. Is that £0.25 billion being spent in the most productive way?

Shona Robison: First of all, congratulations.

Ross Greer: Thank you.

Shona Robison: We should keep things under review, and we should challenge ourselves and be challenged on areas of spend.

As we have discussed on several occasions, the small business bonus scheme serves a number of purposes. It keeps alive businesses that might not otherwise continue to be so, many of which are located on our high streets and in our town centres, where there are challenges. However, that does not mean that we should not look at how effective the scheme is and at whether, if changes were made to it, it could be more effective.

I am a supporter of supporting small businesses, which are the bedrock of our economy. They are still going through a tough time, given the environment in which they are operating.

Ross Greer: With respect, cabinet secretary, I totally accept that premise—I agree with you on the importance of small businesses. My point is that the Government commissioned an independent review that clearly concluded that, if we want to spend £0.25 billion supporting small businesses and the Scottish economy, the small business bonus scheme is not the way to do that. The review was quite unequivocal. It found no evidence of positive economic outcomes, and the scheme has not changed since then. For an unrelated reason, it was tapered somewhat, as a result of which the number of businesses that access it has gone down slightly.

The Government commissioned an independent review, as it should have done, but it did not change anything on the basis of that review, so I am struggling to see a Government that is determined to follow the evidence and get best value for public money. I am not challenging the premise that £0.25 billion should be spent on supporting small businesses, but do you not accept that there is a better way to do it and that the Government needs to take a more robust approach? The Government went through the first half of the process, which was to commission an independent review, but it did not go through the second half of it, which was to change the scheme to make it more effective.

Shona Robison: I am always open minded and I am open to looking at how we can make improvements to any of the schemes and systems that we have in place. We also need to ensure that we do not create dependency—earlier, we talked about creating dependency in the sphere of welfare. Whatever programmes we have, businesses need to be viable. We want to support viable businesses that provide much-needed services and have a much-needed presence in many communities.

We keep things under review and, if we could support businesses in a more effective way, we should be open to doing that. However, in the current climate, in which businesses are struggling, it would be difficult to tell them that we intended to take away the support that we provide through rates relief. That would not be the right thing to do in the current economic climate, which is very difficult, especially for small businesses.

We will continue to discuss the matter, but those discussions should be about improvements to the system. We very much support the principle of supporting small businesses, and if people have ideas about how we can make the current scheme better, I am happy to discuss those further.

Ross Greer: I am glad to hear that. This is a discussion for another time, and we have talked about it before, but I do not think that it is appropriate that, for example, shooting estates that are owned by some of the wealthiest people in the world benefit from the small business bonus scheme, when there are many genuine small businesses in Scotland that require more support.

Shona Robison: It is a very small number.

Ross Greer: It is a few million pounds, but I suggest that it is a few million pounds that would be better spent elsewhere.

I will move on to another area. High levels of inequality are harmful to public finances because they are harmful to the economy at large. Normal people spend their money in the economy, which generates tax revenue and has a net positive effect. The very wealthiest people in society tend to be less productive with their wealth. Much of it is offshored or holed up in assets that are not used productively. Last week, you published statistics showing that the richest 2 per cent of households in Scotland have more wealth than the bottom 50 per cent combined. In the Scottish Government's view, is that an unacceptable level of wealth inequality?

Shona Robison: We have recognised the issue of wealth inequalities for as long as I can remember and have been very clear on the principle that those who have the broadest shoulders should contribute more. The difficulty has related to our powers to address that. If this exchange is heading in the direction of wealth taxes, for example, I note that I am in favour of them, but they are very difficult to deliver. Looking around Europe, many have tried to implement them, but not many have succeeded and, recently, the Norwegians have had to rein them back. In principle, I am in favour of wealth taxes, but the question is how they are delivered. I believe that the contribution that people with large assets make should be recognised, but finding mechanisms to do so is the hard bit. As you will be aware, the Scottish Land Commission is in the early days of its work on land valuation and all of that.

It is not that we are not interested and are not looking at those areas, but there are a lot of process issues. You know that the ability to move forward with any additional taxation would require huge negotiations with the UK Government and there would be a whole process to go through, on the presumption that the UK Government agreed in principle—although, I am not sure that it would agree in a lot of this space. Something might appear in the autumn budget that could surprise us—who knows? There is a difference between principle and practice and being able to do something that would work and would bring in resources any time soon. I am pragmatic; you could spend a lot of money pursuing something in that area, but it would produce no funding any time soon. I am quite thoughtful about that.

Ross Greer: I appreciate that. I was not specifically heading to a wealth tax proposal, although I agree with everything that you said about the support for it in principle and the practical challenges of implementing it. However, I take it from your answer that the Scottish Government is not satisfied with the current levels of wealth inequality in Scotland.

Shona Robison: No, of course not.

Ross Greer: There are levers that are entirely within devolved competencies. Most obviously, the council tax is the most immediate form of wealth taxation. The single largest form of wealth in Scotland—although it is not the majority of wealth—is residential property wealth. In my view, the failure to reform council tax is the single biggest failure of the devolution era. Taking on board what you said about the other pieces of work that are under way, for example, on land taxation, I am looking to get a sense of whether the Scottish Government has a plan to reduce wealth inequality. Is it looking at all the levers that are available to it and at which could be used to reduce wealth inequality in a way that is good for public finances and good for the economy at large by redistributing more of the money to those who will go out and use it?

Shona Robison: In practice, through our taxation system, we require those with the broadest shoulders to pay a bit more, which has helped us to fund things such as the Scottish child payment. We have taken steps to reduce inequalities, and we are the only part of the UK where child poverty is falling. We should be proud of that track record.

Ross Greer: I was proud to vote for all those budgets and proud that my party collaborated with yours on them. We have made significant progress compared with the rest of the UK, but all the efforts that we have made so far have got us only to this point, where the top 2 per cent own more than the bottom 50 per cent. Clearly, there is a need to go further. I am looking for a sense of what the Scottish Government thinks those next steps are.

Shona Robison: As I said, when it comes to powers over some of those more straightforward options, the path is not clear and obvious. Whether the UK Government will look at that issue remains to be seen. We will get a flavour of that at the autumn budget.

I have spoken about council tax several times, and I am up for looking at reform, but it can only be done in a way that attracts some consensus. With all due respect, the last time that there was any idea of moving forward with reform, we got the usual political response from the Opposition. We can only move forward with reform if we can find an area of agreement. In the absence of that, it is very difficult to embark on a programme, particularly given that we do not have a majority in the Parliament.

Post-election, we should return to having a serious discussion on where there might be areas for reform. It will be interesting to see where the UK Government goes in order to address the very complicated interrelationship between property tax reform and council tax. I am still getting my head around what their proposal means—it sounds incredibly complex, which means that it will probably never happen. We need to have an honest discussion, but that will probably be post-election.

Ross Greer: I appreciate that, given the point that we are at in the parliamentary timetable. However, the Government needs to be brave enough to accept that the only way that council tax reform will move forward is through a majority, not unanimity. I do not see the prospect for unanimity, and the Government needs to recognise that there is a potential majority for some reform—revaluation at the very minimum—but only if the Government forms part of that majority. There are other MSPs who would support that, and my group is certainly willing to play a part in that majority, but it will not be unanimous.

Shona Robison: There are areas for broader consensus around reforms to the existing system, but it is more difficult to find areas of consensus when you get into considering a wholesale council tax replacement. However, we are interested in looking at where the UK Government goes. Seeing whether there is enough common ground will be a post-election discussion.

Ross Greer: It seems that I am putting on my greatest hits, so I have one more, which was teed up by what you said about the Opposition parties' response any time that something is put forward.

I have every sympathy with the Government's position at budget time, when Opposition parties demand increased spending but will not say where the money should come from. You have heard me say that the highest quality budget debate that we have ever had in the Parliament was in 2017-18, when the Government invited all parties to put forward tax proposals and have them costed by the SFC. Given that there is only one budget left before the next election, will the Government take that same approach and invite all five Opposition parties to publish their own proposals, so that they can all be costed by the SFC and, at that point, scrutinised by the Parliament?

Shona Robison: That is a very interesting idea, which I will take away. The Finance and Public Administration Committee might have a view on that.

The Scottish Fiscal Commission has gone quite far by suggesting that the spending review is a point at which, if others have a different approach to spending plans, they should set that out, particularly in a pre-election period. Given that an organisation as eminent as the SFC is saying that, it will perhaps put a little bit of pressure on Opposition parties to set out alternative spending plans. If they do not do so, that is quite revealing.

Ross Greer: I agree.

12:45

Liz Smith: I will concentrate on the sustainability of the social security budget. At the start of the meeting, the convener flagged up the cabinet secretary's statistics, which say that the social security payment budget is going up from £6.8 billion in 2025-26 to £8.8 billion in 2029-30.

That is almost a 30 per cent increase in four years. Given that you say that the Scottish child payment is effective delivery of social security payments, what work is the Scottish Government doing on the effectiveness of other aspects of the social security budget? I am asking particularly about adult disability payments, which are ballooning out of control.

Shona Robison: Let me repeat something that I said earlier, because it merits repeating. The context to this is that, although you are right that the Scottish Government anticipates spending around £8.8 billion on social security assistance by 2029-30, more than 80 per cent of that £8.8 billion comes from the UK Government through the block grant. I am not saying that that is not an issue—it is an issue—but UK Government spending on social security is increasing and 80 per cent of that £8.8 billion will essentially come through the block grant. That leaves us with choices about what we do on investment on top of that and what we do on policy choices within that.

You have referenced ADP and PIP. Let me say a couple of things about that. We all—I think that it was unanimous—signed up to the idea that we wanted a social security system that was based on the principles of dignity, fairness and respect. The emphasis was always that our social security system should look and feel different from the UK system, because of concerns about stigmatisation and all of that. That is what everybody signed up to. It is therefore no surprise that Social Security Scotland takes those principles through to decision making and the way in which people are supported. However, that does not mean that we should not be making sure that our systems are as robust as they can be.

Earlier, we had a bit of a discussion about the recovery of overpayments, particularly where there has been criminality. Payments should also be delivered as efficiently as possible, so some of the efficiency drives will apply to Social Security Scotland as well as to the work that it does. The Cabinet Secretary for Social Justice is looking at the processes for reviewing ADP awards, to make sure that, when people's circumstances have changed, for example, that might impact on eligibility.

The committee raised with the previous panel the point that 2 per cent of ADP awards in Scotland were ended or reduced compared to 16 per cent of PIP awards. Let me say something about that, because we have done a bit of work to get underneath that figure and it is important to share this. Over the past five years, nearly 40 per cent of PIP review decisions that ended or reduced the award were changed following challenge. That means that, although 14 per cent of PIP awards were initially reduced or ended, the figure was closer to 9 per cent once final decisions were reached. There is still a difference there, but it is important to recognise that getting it right the first time is not a bad thing either.

Liz Smith: Thank you for your detailed answer. The key point is that the economic forecasters, not least the Scottish Fiscal Commission, are warning strongly about the difficulties with the fiscal sustainability of the social security budget because it is increasing at a faster rate than in other parts of the United Kingdom. The question is whether the evidence that the Scottish Government has about the effectiveness of its policy making is enough to ensure that its policies are the right policies.

There is evidence to suggest that the Scottish child payment is effective enough, but, when it comes to the adult disability payment and some of the other disability payments, there seems to be a lack of evidence. It is all very well to talk about having a more beneficent system that is based on fairness and so on—we all signed up to that. However, we also signed up to a welfare system that delivers to those who are most in need. At the moment, we seem to be increasing social security benefits at quite a rate, and there are questions about whether all of that money is going to those who are most in need and whether the policy is having the unintended consequence of preventing some people from going back into the labour market. That concerns us all, I think, from a fiscal sustainability angle, and I would be interested to learn what work the Scottish Government is doing to address that very serious concern.

Shona Robison: It is important that we always apply rigour to all our systems, challenge them and make sure that they are fit for purpose. We have made a very conscious decision to invest in the social security system to support people. We should remember that the adult disability payment is a benefit that is paid to people who have essentially been determined to be unable to work. It is important to make sure that we are helping and supporting people upstream before they fall out of work and end up in the position of applying for the adult disability payment, because we know that, with the right support earlier on, people can be kept in, and supported in, work. There is an issue of too many people falling out of work due to health conditions that eventually leave them unable to work, so there is something to be done upstream.

I will be blunt about this. We sometimes talk around these issues, but nobody ever comes forward and says, "You should cut ADP," or—

Liz Smith: That is where the whole issue of universality comes in. We should be talking about these issues. I have done so many times. Can I finish my point? I am conscious of the time.

When it comes to incentives to ensure that more people are going back into the workforce so that we can raise tax revenue—we are obviously becoming more economically productive—is the Government not concerned that, as a result of our welfare system, which is less penetrating in terms of the questions that are asked of people and which does not use the face-to-face inquiries that are used down south, we are encouraging more people to stay on benefits instead of going back into work?

Shona Robison: It goes back to the point that I just made. Work is absolutely the best route out of poverty—we all agree on that—so how can we ensure that there are routes back into the workplace for people who have been out of the workplace for whatever reason? It goes back to what we talked about earlier—our employability schemes, what works and where the evidence base is. Without a doubt, some of those schemes are very effective, particularly for women who have been out of the labour market for some time due to having kids and so on. However, there is more work to be done in that space.

There is also the point about avoiding people falling out of work in the first place. We know that the longer someone is off work, the lower the chance that they will go back into work. I do not think that we are as good on that as we could be. We could do more in that space.

Liz Smith: Thank you.

John Mason: We have covered quite a lot of ground already. We have talked about the potential £2.6 billion gap, but, perhaps more urgently, the forecast for 2027-28 is an £851 million negative reconciliation, which would be over our borrowing limit. Do you have any thoughts on how we will address that?

Shona Robison: Let us start with the good news: the forecast for 2026-27 is a £406 million positive reconciliation. That shows how things can change, because there has been a big change in that number. I am trying to remember the year—Jennie Barugh might help me—when a big negative tax reconciliation was predicted before the position completely changed. Was that 2022-23?

Jennie Barugh (Scottish Government): The figure went from £701 million to something much smaller.

Shona Robison: Yes. There is volatility, but we have to plan for the worst-case scenario, so we have those discussions. It comes back to the lack of flexibility in the fiscal framework. We want to discuss and have been discussing the borrowing limit, and there is the issue of having flexibility over borrowing powers more generally. We will monitor the situation very carefully and work with the Treasury on the borrowing limit for a worst-case scenario. Given the level of volatility, I suspect that the figure will change—I hope, in a positive direction—but we will work with the Treasury on contingencies.

John Mason: I certainly share your hope that the figure will reduce.

I discussed this issue with the Scottish Fiscal Commission in the previous evidence session. You have already said that you have asked for a review of the fiscal framework, and what we have been talking about emphasises the point that, as the Scottish budget has increased, the £700 million reserve and the £600-odd million borrowing limit have not increased proportionately, which concerns me quite a lot. It is all very well increasing them by inflation, but our responsibilities have increased by a lot more than inflation.

Shona Robison: Exactly. I assure you that we have made that point very powerfully, and we will continue to make it. We want to make progress through some short-term flexibilities. There is the wider issue of agreeing the scope of a more fundamental review of the fiscal framework, but there are some shorter-term flexibilities that could make a big difference, such as those relating to the use of the reserve, borrowing limits and borrowing flexibilities. Those could all make a real change.

On the fiscal framework, the income tax net position can change not just due to differences in tax policies but due to the composition of the tax bases in Scotland and the UK. As the committee has recognised, the position of every area in the UK is skewed by a comparison with London and the south-east, so, if the budgets for every part of the UK were set on the basis of that comparison, it would be very challenging. How the fiscal framework applies in the devolved context absolutely skews the funding base. We have to address that, and we have seen how the framework works in practice for enough years now to know its weaknesses, so the time is right for a more fundamental review.

John Mason: I certainly agree with that. Do you get any positive vibes from Westminster in that regard?

Shona Robison: As of yesterday, we have a new Chief Secretary to the Treasury, and I am a little concerned that we have already talked all these things through. It is good that, at official level, we have a really good working relationship so that we understand the detail, and a lot of the discussions should remain the same, because officials provide continuity. I am writing a letter to the new CST to welcome him to the job and to set out where we have got to, because I do not want to go back to the starting blocks on these issues. I know that the Welsh and the Northern Irish will be doing the same. We want to bank the progress that has been made and start the discussion from there, rather than going back to first base.

13:00

John Mason: Thank you very much. I want to ask about capital expenditure. You mention in the strategy that you

"are currently exploring the use of revenue finance models".

Can you expand on what that means?

Shona Robison: Yes. There is a good example that I can give you, but I am not sure whether it is in the public domain. Is Granton in the public domain?

Richard McCallum: I think so.

Craig Hoy: It is now.

Shona Robison: Indeed—it is now.

One area that we are agreeing with the City of Edinburgh Council is the Granton funding landscape. The component parts are quite complex and have been funded from various bits, but there is a final bit of the jigsaw that needs to be put in place. In order for that to be completed, the City of Edinburgh Council is required to borrow, and we have agreed to pay the revenue costs of that borrowing.

That one example shows quite a pragmatic way of completing a project. It works for big projects such as housing and transport infrastructure, but I actually quite like it. It is a good way of ensuring that there is no one bit that is—

John Mason: And the only cost would be the interest. When I saw it, I immediately got a bit worried about private finance initiatives and public-private partnerships.

Shona Robison: Let me reassure you that we have learned lessons from all that. I should also point out that we have brought forward hubco; we have had the non-profit-distributing model; and we are exploring things such as the mutual investment model that the Welsh have used. These things are a million miles away from the terrible deal that the public sector previously got out of PFI.

We are also quite interested in understanding where the UK Government is going with revenue-based finances, but any approach has to pass the value-for-money test. Given the current financial climate and current interest rates, the situation is not ideal.

I am a bit of a pragmatist. I am in the space of making something work that will deliver projects that otherwise would not be delivered, but any approach has to meet the value-for-money test and has to be good value for the public purse. We are still working through some of those issues in relation to some of these projects.

John Mason: Are you still committed to the limit that was put in place by, I think, John Swinney a while ago about how much of the Scottish budget should go towards repaying capital or interest payments?

Shona Robison: Yes, we have our rules, but perhaps Richard McCallum can remind me of them. My brain has gone to mush. Is the limit £300 million?

Richard McCallum: Yes, we are still using the same basis for those rules, which we will apply.

The other thing to say is that, particularly on revenue financing, the 10-year infrastructure strategy, which I think has been mentioned and which the cab sec will set out later this year, will have more on public capital and private financing options. We will set more of that out then.

John Mason: When the financial transactions money was cut back, it hit the housing budget in particular, if I remember correctly. Where are we on that now? Has it improved a little bit?

Shona Robison: Yes, it has improved. I had the projection earlier on—I was looking at it and now I cannot find it. The figure is projected to go from £163 million to £300 and something million—does somebody have the figure? I have it somewhere—it is annoying because I had it earlier.

There is an increase in financial transactions, and we will be looking at using them primarily for SNIB and housing. However, although we welcome any such increase, there is a bit of opaqueness in the way that the bulk of FT funding is routed through things such as the National Wealth Fund. We are not clear about the governance arrangements for that; we want that fund to invest in Scotland, but, as I have said, how the decisions are made and how they align with the priorities that we and local government have set out is a little bit opaque. Those things are just not where they need to be; after all, at the end of the day, this is collective funding. I can now tell you that the figure for FTs is projected to go from £167 million to £360 million.

We get a better bang for our buck if we clearly align funding with joint and shared priorities. We do not want to go back to the days of having roundabouts somewhere with a UK Government badge on, as used to happen, because that is not a good use of money. We need big strategic capital investment in joint and shared priorities to make the best use of our collective resources.

John Mason: And housing would fall into that category.

Shona Robison: Well, the UK Government is routing its funding through, I think, Homes England. It is a different set-up. We route funding through local government and registered social landlords; they can borrow, too, and the funding that we put in is enhanced by the borrowing that they undertake. The model is a bit different in that respect.

I am talking more about big infrastructure projects. The National Wealth Fund is supposed to fund catalysts for a lot of big industrial or net zero projects, but there is no clear governance with regard to how those decisions are made. I just think that there is scope to do better in that space. We are not the only ones saying that—the Welsh and the Northern Irish are saying the same.

John Mason: That is great—thank you.

I notice that, in the medium-term financial strategy, you specifically say:

> "For the first time we are also presenting information on ... contingent liabilities".

The committee has previously raised questions about the cumulative effect of such liabilities. I was just interested to see that sentence in the document, and I wondered whether that meant that the Government was a bit concerned that such contingent liabilities were getting quite big now. Normally, we in the committee talk about them secretly, but obviously they are out in the public domain here.

Shona Robison: Will we come back to that, Richard? Is there anything that you want to say?

Richard McCallum: I think that that was partly a response to the committee's particular asks on the matter. That is why we included it, but we can provide more detail.

Shona Robison: I do not think that there is anything too alarming.

Jennie Barugh: It was about recognising that contingent liabilities are a relevant issue to bring through in the medium-term financial strategy and a way of referring to the improved governance framework that has been put in place, which includes the Finance and Public Administration Committee.

Shona Robison: I do not think that alarm bells should be ringing.

John Mason: No, that is good. I shall leave it at that, convener.

The Convener: Thank you very much.

I think that that concludes the committee's questions. It has been a long shift, cabinet secretary, but do you have any further points that you want to make?

Shona Robison: I do not think so. There are one or two things that we said we would come back on; we have made a note of them, and we will do so.

The Convener: I could have asked more questions, but we have all got lives outside this committee, and I think that we need to start living them. Thank you very much for your evidence today—it is very much appreciated.

That concludes the public part of our meeting. The next item on our agenda, which we will discuss in private, is consideration of our work programme, and there will be a one-minute break to allow our witnesses, the official report and broadcasting to leave.

13:07

Meeting continued in private until 13:09.

Official Report
Room T2.20
Scottish Parliament
Edinburgh
EH99 1SP

Email: official.report@parliament.scot
Telephone: 0131 348 5447

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