OFFICIAL REPORT
AITHISG OIFIGEIL

DRAFT

Finance and Public Administration Committee

Tuesday 13 January 2026

Session 6

The Scottish Parliament
Pàrlamaid na h-Alba

Tuesday 13 January 2026

CONTENTS

FINANCE AND PUBLIC ADMINISTRATION COMMITTEE

2nd Meeting 2026, Session 6

CONVENER

*Kenneth Gibson (Cunninghame North) (SNP)

DEPUTY CONVENER

*Michael Marra (North East Scotland) (Lab)

COMMITTEE MEMBERS

*Patrick Harvie (Glasgow) (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:

Rosie Colthorpe (Office for Budget Responsibility)
Laura Gardiner (Office for Budget Responsibility)
Tom Josephs (Office for Budget Responsibility)
Alistair Mackie (Royal Scottish National Orchestra)
Alex Reedijk (Scottish Opera)
Gavin Reid (Scottish Chamber Orchestra)
Steven Roth (Scottish Ballet)
Liam Sinclair (National Theatre of Scotland)

CLERK TO THE COMMITTEE

Joanne McNaughton

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament

Finance and Public Administration Committee

Tuesday 13 January 2026

[The Convener opened the meeting at 09:34]

National Performing Companies (Economic Impact)

The Convener (Kenneth Gibson): Welcome to the second meeting in 2026 of the Finance and Public Administration Committee. Today, we are taking evidence on the economic impact of Scotland's five national performing companies in round-table format. Our witnesses are Alistair Mackie, chief executive at the Royal Scottish National Orchestra; Alex Reedijk, general director at Scottish Opera; Gavin Reid, chief executive at the Scottish Chamber Orchestra; Steven Roth, executive director at Scottish Ballet; and Liam Sinclair, executive director and co-chief executive at the National Theatre of Scotland. I warmly welcome you all and thank you for providing a joint economic and wellbeing impact assessment, which is very helpful in informing our questions.

I intend to allow up to 90 minutes for the session. I will explain the process. I will start by asking the first question, which is for Alistair Mackie. If anyone else wants to come in, just let me know by putting up your hand or nodding or by indicating to the clerk. If you decide to tickle your nose at any point, you will be brought in.

Our approach is to enable everyone to contribute to the degree that they wish to and to make it more relaxed, instead of holding a session in which the same question is put to all and we end up with five people giving the same answer. This format allows you to come in when you feel that you wish to.

Alistair, we are considering the costs and benefits of our performing companies. We have a paper that says that

"every £1 received from the Scottish Government generates £2.62"

in gross value added,

"along with £1.75 in wellbeing benefits."

However, figures for the RSNO alone suggest that you generate £4.10 in GVA and £2.80 in wellbeing benefits. Why is support for the RSNO so much more valuable than for the other performing companies?

Alistair Mackie (Royal Scottish National Orchestra): Economic benefit is one metric that we are focusing on today—you are the Finance and Public Administration Committee after all. However, the charitable objectives of each company are their primary purpose—that is why we are here. For the RSNO and others, there is a careful balancing act between chasing income and commercial returns, and sometimes that is—[*Interruption*.] Is that your mobile, Michelle?

Liz Smith (Mid Scotland and Fife) (Con): Need you ask? [*Laughter*.]

Michelle Thomson (Falkirk East) (SNP): Yes. My apologies.

Alistair Mackie: Sometimes economic gain is in direct contradiction to charitable objectives. For example, we want to raise our ticket sales and our income, but we also want our work to be accessible and to give away tickets to young people. Although there is little economic benefit in our going to the regions of Scotland, it is imperative that we do so. Sometimes, economic return on that activity looks poor, but I would argue that it is incredibly important that we do it. It is a balancing act.

The RSNO has been very fortunate in that an opportunity presented itself to develop a studio, which has allowed us to earn quite significant commercial income. We have done very well in exploiting that unique opportunity, but it is specific to the RSNO.

The numbers are really interesting. As you probably know, I am very keen that culture talks about economic value as well as social artistic community value. I do not think that we do that enough. It is not the only thing that we should be talking about, but it is crucial that we reference it.

The Convener: No one has asked to come in as yet, so I will ask a couple more questions. [*Interruption*.] Your name was not down to come in here.

Michelle Thomson: I know—sorry. You did not—

The Convener: Telepathy does not work particularly well with me, I have to say. I will continue.

First, I should say how much I am looking forward to your Viennese gala at the Beacon arts centre in Greenock on Saturday.

Alistair Mackie: Thank you. I will be there.

The Convener: You did yourself down a wee bit there because you said that there is no real economic benefit, but the report that you submitted shows there to be significant benefit. For example, one of the things that the RSNO has said is that an additional £3 million of funding would provide some £13.9 million pounds of economic impact. Some of that would percolate to other communities. When one actually looks at the impacts on community wellbeing and does the sums, performing in the community is 2.8 times more valuable than performing in some of our larger urban theatres.

Alistair Mackie: Like everyone who is around this table, we are really committed to getting out into smaller communities, which is so valuable. That aspect is really stretched by current finances, and taking an orchestra and its players and having feet on the ground in the regions is incredibly expensive—there is no way around that—but I absolutely consider that the social and economic community returns of doing so are even more valuable.

The Convener: We will probably come to Scottish Opera, which, as it highlights is extremely successful around Scotland. Although we might be talking about four singers and a piano player in the production, support staff will accompany them, too.

One part of your submission that I found interesting dealt with the funding scenario for RSNO. It talked about the ratio of economic impact and wellbeing impact and there was a suggestion that a £3 million increase in your funding, should that transpire, would—relatively speaking, although not in total—actually provide greater returns than a £5 million addition. Why is that the case?

Alistair Mackie: Biggar Economics used some pretty complex economic metrics for that and I am not sure that I can give you a really specific answer, but I do think that the additional work that we could do would have real value. Our ambitions are limited by our funding. For example, I would love to have a larger workforce of musicians so that a portion of them could dedicate at least half their time to being out playing in communities as well as in the RSNO. Trying to service our core work in the concert halls of Scotland and beyond at the same time as trying to be in the recording studio and trying to be out in communities is really difficult. The additionality that we would get from that £3 million would give even more of an economic return than we have at the moment and I would argue that it would have even more community and social value.

Our primary purpose is to keep a world-class symphony orchestra performing great concerts on stage in Scotland and, once we have those great musicians and artists resident in Scotland, it is a shame not to use them and to get them out and about.

We talk a lot about the ecosystem here. What would the Royal Conservatoire of Scotland or its staff be without the national companies and the workforce that service the conservatoire? On the train journey over here today, we talked about concert halls. Our costs have gone up considerably because of concert hall rentals and restoration funds, but what would those concert halls in Scotland be like if we did not have the national companies using them week in, week out? The festivals are a wonderful thing and we know the benefits that they bring to Edinburgh, but how could those festivals exist here if we did not have the national companies and others in the concert halls, paying the rentals and keeping them going in the other 11 months of the year? I would argue that concert hall costs have risen by way more than inflation because of pressure on local government funding, so there is more of an onus on the people who perform in those halls to fund them. That is one reason why our costs have gone up so significantly. It is crucial to make the point that Scotland’s cultural infrastructure is highly dependent on the national companies, and others, that are funded through Creative Scotland.

Michelle Thomson: I feel as if that question has, in some respects, taken us straight in with our heavy brogues on. Before I move on, I will take it up a level to get your reflections on the fact that that you are in front of the Finance and Public Administration Committee. One of you may wish to answer first, but I would like to get a sense from all of you of how important you think financial sustainability is. I may come to you first, Alistair, because the RSNO report came out before the wider report into all the national performing companies. In your role as chief executive of the RSNO, how much importance do you give to financial sustainability, how much is that supported by the board and how much is it encouraged by Government? In other words, what was the trigger for your producing that report?

Alistair Mackie: Financial sustainability is crucial. If you cannot balance your budget, you do not exist, so it is fundamental. Our board is absolutely committed to fiscal responsibility. I have said here previously that our salaries are too low, but we keep them low in order to be fiscally responsible.

At the same time, we have managed to significantly grow our income, which was £12.9 million last year, compared to £8.5 million a year before the pandemic. We look for income growth opportunities and take that seriously. We also take diversity of income seriously and are trying to make money from ticket sales at the same time as doing commercial recordings and trying to maximise tax credits from Westminster. The board talks a lot about financial resilience and we do not depend on only one source of income. It is easy to come here and say that the Scottish Government should give us more money—and I think that it should—but no stone is left unturned in looking for income generation and for cost controls. We had to make two staff redundant last year. They were film makers who were doing great work, so I was very sad about that, but we simply could not justify paying them week in, week out instead of using freelancers, because our finances are just too tight. We talk a lot about finance.

However, again, I will make the point—perhaps I am labouring this—that we are here for a charitable purpose. I talk a lot internally about eradicating careless loss. If you want to take singers around the regions, as Alex Reedijk does, it costs a lot of money and you lose a lot of money, but that is good loss—you have to lose that money, and that is why we get a grant.

09:45

It is about having a balance of income generation, cost control and making sure that your charitable activity—what you are there to do—is done as best as you can do it. It is a live conversation and I have felt for a long while that culture has been too slow to big up our economic value.

When I was looking at the income growth that the RSNO had and the diversity of income that we were beginning to achieve, of course I wanted to promote that. It is important that we promote it here at the Parliament, but also to our donors. It is incredibly important that, if you give a pound to the RSNO, you know that that pound is really well spent. It is hard to fundraise and it is hard to justify your existence without a strong financial strategy.

Michelle Thomson: I could see nods of agreement around the table, but I want to pick up on a comment that the convener made about the simple maths—I realise that it does not particularly work like that—of looking at the joint NPC figures minus the RSNO figures. The wellbeing-adjusted life years—the WELLBY measures—are valued at £40.5 million for all the NPCs. If you take out the RSNO figures and spread the remainder roughly across the other four companies, the WELLBY figure looks far less, and likewise with GVA. I appreciate that we do not have the exact figures.

I will come to you first, Alex, just because you are on my right-hand side. Have the other national performing companies given this the same focus? If you say, “Absolutely, yes we have,” why was there not that level of detail from all the NPCs, while allowing the RSNO to lead? What has been going on with that focus on financial sustainability in all the other companies? Do not worry, Alex will be asked about this first, but I will come to the others as well.

Alex Reedijk (Scottish Opera): There are probably two parts to cover in answer to that. The first part is that, like all the national companies, there is a relentless focus on financial stability. I will just amplify that a tad. Like the other companies, Scottish Opera is a charity. It is one’s duty as a trustee of a charity, and indeed a duty of the board, to make sure that the charity is financially stable. It is also our duty of care to all of our stakeholders, including our audiences. However, some of the colleagues around the room who have been around as long as I have will recall that there was a time when Scottish Opera was not quite as responsible, and that led to some difficulties. Therefore, one of my mantras when starting at the company was to turn us around from a culture of entitlement to a culture of taking responsibility for ourselves. That has permeated through the life of Scottish Opera in the past 20-odd years.

Also, I know that there is a popular cliché of artists starving in a garret and all those sorts of criteria. My view is that that simply does not allow the best possible work to be made. So, again, financial stability and creative curation and all of those aspects have to be in place for a modern performing arts company. On the back of the awards that we have been winning and in terms of our audience numbers, I would say that we have managed to achieve that.

In answer to your second question, speaking on behalf of the four national companies, I think that probably, although we observe much the same criteria that the RSNO does, we have just not been as timeous in our approach to the actual economic studies. The paper that we have presented today is a collective of the five of us, but the intention is that it is phase one of a bigger piece of work.

Michelle Thomson: Does that mean that whatever version of this finance committee exists in the next parliamentary session can look forward to this kind of report on a regular basis, if not an annual basis, because I appreciate that there is a cost to preparing such reports?

Alex Reedijk: Yes, is the short answer.

Michelle Thomson: Okay. Just to get this in the same thread, I want to bring in—

The Convener: This is a round-table session; it is not a panel session, when we all just ask a barrage of questions. I am keen to get as many people in as possible, given that we have only got another hour and 10 minutes, so we will move to Liz Smith now, but I will come back to you.

Michelle Thomson: Okay.

Liz Smith: First, it is very welcome that you are all here, and I compliment you on the work that you do. My question is about young people, who will form the future audiences that you all have to inspire. From a financial angle, how easy—or probably how difficult—is it for you to ensure that enough money is going into increasing the engagement of young people and their ability to participate in the arts? Do you want to have a go at that from the point of view of theatre, Liam?

Liam Sinclair (National Theatre of Scotland): I am happy to pick that up. I know that I speak for my colleagues when I say that we are entirely focused on the benefit to young people because of what you said—they are the future.

The National Theatre of Scotland is 20 years old this year, and for 10 years, we have had a strategic partnership with Imaginate, which runs the Edinburgh international children's festival. The partnership is called Theatre in Schools Scotland and the premise is simple—it is to take the best of Scottish theatre to schools across the nation. However, the delivery of that is increasingly under the economic pressures that Alistair Mackie and Alex Reedijk were talking about because of touring costs and because of the pressures that schools are under in terms of discretionary budget spend.

This year, as a birthday offer, we are making TISS performances free at the point of delivery to try to engage as many young people as possible. That is where wellbeing indicators become really important, because you do not get an immediate financial return and economic benefit from that delivery in schools, but I think that we would all agree that we are inspiring the next generation of Scotland's citizens to be engaged in the arts and to feel that the arts are for them.

I was at a performance at James Gillespie's primary school back in November that was just for primary 2s, and it was fantastic watching how, in their school hall, every child could engage in a way that was right for them. There were clearly some young people in the room who had additional support needs, but it was absolutely fine that some of them paraded around the outskirts of the gym hall; they could keep moving while they watched. There are lots of developments in our performance venues across the country to offer relaxed performances and so on, but those experiences are not always the most comfortable thing for some children and young people.

Liz Smith: Are you finding that there is an increasing uplift from schools in engaging with you and that there are more children involved to be inspired in relation to something extracurricular? We often get told that we are lacking in music teachers, for example, and some of the tuition that you might find for acting or whatever is not readily available—it is certainly a bit of a postcode lottery. Are we going in the right direction or have we got far more to do to inspire our younger people?

Gavin Reid (Scottish Chamber Orchestra): I would say that there is far more to be done to ensure universal access to music provision in schools across Scotland. There is evidence that there is good work going on and that progress has been made. I think that all the national companies feel a great responsibility to be part of that activity and part of that programme. Certainly, speaking for the SCO—I know that the others will say something similar—we take those responsibilities extremely seriously, but such work is expensive. I could give you a list of all the various projects that we are involved in with children, from the very youngest age, with our big ears, little ears project, to those in primary and secondary schools and in the further and higher education sectors.

I am looking at our new annual review, which has just been printed. On the first page, there is a quote from a school in Craigmillar that says, "Every time they have attended an SCO performance, they have come back invigorated. It is a pleasure to see." We could all say something similar. We will all have some sort of evidence.

The reality is that for us to be able to undertake the volume of work across the country that we currently do, it requires, as Alistair Mackie said, a number of different funding sources. Core Scottish Government funding allows us to have the conversations, but it does not allow us to do very much of the activity. The activity comes from other funding sources, such as trusts, foundations and individual donors.

Much of our philanthropy is unrestricted, but increasingly quite a lot of it is saying, "These are the areas that we're looking for," and it is inevitably to do with young people and public health and wellbeing. I concur with everything that colleagues have said so far—I do not need to go back over all of that—but this is a time of opportunity. To take a different tack, if I may, with public health and wellbeing and preventative healthcare, those of us working in the arts have known for a very long time the benefits of the arts to health and wellbeing. You just have to look at our subscriber base and at why people come back every week.

Since Covid, something really exciting has happened, which is that policy makers the world over are now talking about this seriously. That is fantastic. We are being encouraged—it does not take much encouragement, because we want to do it—to get into new areas of young people, community, placemaking and health and wellbeing. That is the right thing for us to do, but, at the moment, our core funding is being stretched thinly to deliver it.

Liz Smith: My final remark on that is that one of the good things that are happening is that His Majesty's Inspectorate of Education in Scotland is starting to look at the extracurricular dimension as part of the quality provision in schools. That is a huge benefit, because, as you say, that is the wellbeing aspect and the quality side of it. The Education (Scotland) Act 2025, which went through the Parliament four or five months ago, asks inspectors to look at that extra dimension, to which you all contribute so effectively. In previous times, that was not really measured and we did not get much feedback on it, so that change is a very good thing.

Gavin Reid: I will quickly answer, if Alistair Mackie does not mind. One tangible piece of evidence about our community work and schools work comes from the SCO's involvement for the past five years in a pretty wide-ranging community and education project in Craigmillar, here in Edinburgh. A lot of that work has been based at Castlebrae high school, which did not have instrumental music service provision. Just before Christmas, we were informed by the school that a factor—I am sure that there were many factors at play, and I will not pretend that we take all the credit—in the local authority's decision to introduce regular instrumental tuition was evidence of the benefits of the school's work with the SCO over the past five years.

Liz Smith: Good.

Alistair Mackie: You referenced our work as extracurricular, yet one of the great opportunities of our age is that we can be in the classroom helping teachers to deliver their curriculum requirements. It has been a primary focus of the RSNO to get teacher panels together and to develop digital content. That is not about kids sitting in front of a screen; it is about how we get teachers to lead music lessons in the classroom. We now have the infrastructure to get into classrooms and, for us, as professional performing companies, it is incredibly important to find solutions for not just presenting extracurricular activity but supporting classroom teaching.

The Convener: Alex Reedijk is keen to come in.

I went to see a performance of "The Tale o' Tam o' Shanter" at St Mary's primary school in Largs last year, which was supported by Scottish Opera. Not only did about 80 children participate but all the parents and grandparents turned out to see it. It was a joyous occasion.

Alex Reedijk: In part answer to Liz Smith's question, I observe that Scottish Opera has been performing in primary schools for the best part of 35 years, I would say, although I am happy to be corrected. I happily bump into people who say, "I was there 35 years ago, then my kids went and now my grandkids are going." There is something about that continuity that is really important.

On Alistair Mackie and Gavin Reid's points, there are a goodly number of young people who would otherwise never have an opportunity to express themselves or use such performance opportunities to suddenly flourish. It is interesting that we see a trend and increasing evidence that teachers no longer have the skills to deliver elements of the creative part of the curriculum—we spoke a little about that at the music education forum with the First Minister in December. There is something to watch in all of that.

Again, on Alistair Mackie and Gavin Reid's points, we have a partnership with Disney on the Disney musicals in schools project. At first, when that opportunity presented itself, we thought, "Really?" However, after a moment or two, once we got to know Disney better, we realised that it was an extraordinary opportunity to partner with a whole array of schools that we otherwise would not have had the chance to be in front of.

If we progress up through the ages, another thing that we are doing a lot more work on now is Developing the Young Workforce. In that, we are particularly taking responsibility to encourage the artisan skills, which we rely on heavily, to have an opportunity to flourish. We are in close partnership with the City of Glasgow College, as well as with the Royal Conservatoire of Scotland, with which we have just launched a new diploma. There are multiple strands to how we can intersect through education.

John Mason (Glasgow Shettleston) (Ind): Following on from Liz Smith, who asked about young people being involved, I wonder about your reach across society—are you reaching into poorer areas and are people from those areas attending performances? I was at the Citizens Theatre in Glasgow recently. None of you was involved in the show that I saw; it was Dundee Rep doing "The Glass Menagerie". It was very good. However, it struck me that the audience was pretty middle class and educated. The Citizens is meant to be the theatre in Glasgow that attracts a wide range of people.

Mr Roth, your area is perhaps seen as quite niche. Do you get a wide range of audiences?

10:00

Steven Roth (Scottish Ballet): I would not say that it is niche at all. We reach across all of Scotland. We take a holistic approach to community engagement. We reach young kids in schools, people at the end of their life and people who have significant health issues such as multiple sclerosis, Parkinson's or dementia.

We have multiple programmes running every week and month of the year across Scotland, as far as the islands. We think that young people need to be engaged and inspired. In some cases, they are troubled, so we run very intense programmes for schools.

There is a programme called safe to be me, which is about mental health and wellbeing. It brings kids together to talk about how they can navigate the world as it is. We have a special programme called the close, as part of which we work with schools that have taken children out of mainstream schools to educate them. We spend a year with those young people doing that programme.

As I mentioned, we also have our MS, Parkinson's and dementia programmes across Scotland. We ran a very successful programme up in Orkney. I do not know whether members are aware that Orkney has the highest rate of MS per capita in the whole of the United Kingdom. We worked with the national health service on that.

John Mason: That work involves you going out to reach people, but what about your main performances? Are you more relaxed if the audiences for your main performances are not so diverse?

Steven Roth: The audiences for our main performances are very diverse, as are the activities that we do across the country.

We have another programme called the wee nutcracker, which is specifically for kids from disadvantaged backgrounds as well as the general public. Albert Bartlett, a company that sells potatoes and things, sponsored that so that we could bring young people from schools in disadvantaged areas around Glasgow into those performances free of charge, and it paid for the bus for them to get there.

We are working with Intercultural Youth Scotland, refugees and other people who might have come here quite recently and who have not experienced the arts—particularly our art form. We bring them into performances for free.

When I stand in the foyer before or after shows and look at the audience, I see that it is incredibly diverse. It goes from very young people to older people—every part of society is represented. That is perhaps with the exception of Inverness, which has a particular demographic. However, in Edinburgh, Glasgow and Aberdeen, the audiences are completely diverse.

John Mason: The National Theatre of Scotland has a link with Easterhouse in Glasgow. Has that worked? Do you have a diverse audience?

Liam Sinclair: Absolutely. I will build on what Steven Roth said, which is that this is about taking a diverse approach to audience development. I will illustrate that by telling you about the commitment to a three-year project that we are bringing to fruition this year, in which we are working with people in Scotland's care-experienced community to engage them in making a show or performance event that is about them. That will come to fruition at an event that is taking place here in the Parliament as part of the festival of politics this year.

That is part of our commitment to develop audiences and engage citizens, which is our responsibility as national organisations. We have to go to where the audiences are and break down the barriers and the perception that certain parts of cultural delivery are not for certain people.

I know that I speak for my colleagues when I say that our work is for everybody. However, we do not take achieving that for granted. The caring Scotland project was about building on Scotland's commitment, through the Promise, to listen to the stories of people who are care experienced over generations. That is an important part of Scotland's overall national story, and we value it.

The follow-up is about how to sustain such work and keep people coming back once we have engaged them, so part of our overall engagement strategy year on year is to build on those targeted interventions and to develop them further.

Alex Reedijk: Thank you for the question, which I will answer slightly differently. One long-standing part of Scottish Opera's DNA has been our commitment to the full map of Scotland, which has about 40 per cent of the landmass of the UK and around 5 million people. We are committed to visiting at least 35 communities a year around the whole of Scotland, out of a pool of about 110. What is fascinating is that, in many of the communities that we visit, the hall might be only half the size of this room and might hold only 100 or 150 people, but it is exactly the right size for the community in which it sits and will, typically, be full. That is much less to do with community demographics and much more to do with the enthusiasm in many communities for live performance. It is our duty to bring opera to those communities.

We can never take those audiences for granted, because there is always someone in every audience for whom opera has been their life's work, so we have to be clear about our own knowledge.

John Mason: Is there more of a challenge in the cities? It is one thing to go to a place such as Kirkwall, where there is a mixed community to start with, but do you get a lot of people from the east end when you perform in Glasgow?

Alex Reedijk: I do not know the individual demographics of where people come from but, as Steven Roth does, I stand in the foyer before and after every performance and see a huge array of human beings passing through our theatre. One of our commitments is to hold what we call our net net ticket price—in other words, the price after all the charges, VAT and other dramas come off it—at something like £35 or £38. I am happy to be fact checked, but I am pretty sure that it is around that price point, so that the price does not create a reason why people cannot come to the opera. We also deliberately keep that price substantially lower than the price of going to the football.

John Mason: That is still about five times the price of going to the cinema.

Alex Reedijk: It is about twice the price.

The Convener: You have not been to the cinema for a while, John. I think it is double what you are suggesting.

John Mason: Mr Mackie wants to come in.

The Convener: I have a few more people who want to come in. Do you want to come in on the same point, Alistair?

Alistair Mackie: Just quickly.

The Convener: We will hear from you and Gavin Reid, and then Craig Hoy, Michelle Thomson and Michael Marra are all keen to come in.

Alistair Mackie: We all have initiatives to break down any barriers, and I can tell you what the RSNO does. Every week, 1,200 singers come on our programmes, mostly in community choruses. In addition, we have partnerships with Sistema Scotland and Refugee Festival Scotland. We have done all that.

I will make one point. It is incredibly important that people from every part of society in Scotland see themselves represented on the stage, but there is a massive obstacle to that. Unless we have secure, well-paid jobs, we will become a middle-class profession and will have middle-class audiences. If someone has to accumulate a hundred grand of debt to train as an orchestral musician but then goes into a job where the most that they can earn is £35,000 and even that is insecure, we will not get diversity. We must talk honestly and openly about what we pay our cultural workforce, how we pay them and the security of their employment, because that will fundamentally underpin future diversity.

The Convener: You have touched on a point that I want to go into later about the ratio of permanent to freelance employees, because that is clearly an issue.

I have many other people who are keen to come in, so we will hear from Gavin Reid and then from Craig Hoy, who has been very patient.

Gavin Reid: I do not want to waste, or spend, time rehearsing the same conversations as all my colleagues, other than to say that the SCO has been touring communities outside the central belt of Scotland for 45 years. One idea that I wish was mine but which came from one of my predecessors is that we spend six weeks of the summer in island and border communities of all shapes and sizes.

John Mason asked specifically about our concerts and performances in the main halls in Glasgow, although, throughout the year, we are in Edinburgh as many times as we are in Glasgow. Something quite significant happened after Covid, and it probably came from the loss that we felt in not being able to go to concerts or performances or to enjoy that experience in the same shared space as others. Others will have their own stories, but certainly as far as the SCO is concerned, in many of the places that we go to regularly—Edinburgh, Glasgow and Aberdeen—audience numbers have increased significantly, as has the diversity.

I also walk the floor front of house before and after shows, and Glasgow is very interesting. I have never seen many of the people who come to our weekly concerts in Glasgow before. We have a different programme every Friday night throughout the winter, and we do 23 shows. The trick is to make people realise that they are meant to come every week and get them to come back. More people want the shared artistic experience that you can only get at a live show.

We use digital and social media, which are great ways of reaching new people. The benefits are not only that we reach those who are unable to get to a concert hall but that we are able to give people a taste of what they will see. That gets them to make the leap to come and experience it. The feedback from all of us will be exactly the same—variations on talking about life-changing, transformational experiences.

I firmly believe that we have a generational opportunity through the arts and what they can do for health and wellbeing. Yes, it is marvellous when we put on a version of a Beethoven symphony that is better than any other and is a great interpretation—those of us that have grown up with music since the year dot get terribly excited about that—but this is actually about the impact for everybody of the sheer transformational power. We are seeing that.

We have just had a run of our Viennese concerts at the Usher hall, where 2,000 people came. In Inverness, 90 per cent of tickets were sold, and in Perth, the show was a sell-out, despite the snow. People really needed that—it was not simply a want but a need.

On specific initiatives, one is social prescribing. We are actively working with a great network of general practitioners in Glasgow on a structured programme of prescription to refer people to come to our concerts. We are also developing a partnership with Public Health Scotland and with its chief officer Manira Ahmad in particular, who is a brilliant lady. One of the things that she runs is a social walking group of ladies from multi-generations and backgrounds, and she brought about 15 of them to the City halls for an SCO Friday night concert. I think that it is fair to say that none of them would have come under their own steam, but a number of them have come back.

The Convener: I can develop a dodgy knee if you can get one of those GPs to prescribe me a couple of tickets. [*Laughter*.]

Craig Hoy (South Scotland) (Con): I have some follow-up questions, so I will jump around a little. Gavin Reid, on the subject of social prescribing, I recently visited Borders general hospital and talked to the allied health professionals there. The hospital has a full-time music therapist. How much more could be done through social and health wellbeing to embed something like music therapy in the NHS, and is the Scottish Government receptive to that at a senior level? Could what is happening in Borders general hospital be replicated by other health boards?

Gavin Reid: The conversations that I have been part of suggest that colleagues across Government are receptive to that. However, the reality on the ground is that there are a lot of different provisions. I will give two examples, briefly. In Glasgow, there is one network that covers a significant number of GP practices, which allows us to talk to one person and develop a programme. In Edinburgh, the picture is fragmented, so we have to talk to multiple people, which is labour intensive and makes it far harder to make an impact in a community.

The short answer is that we need a joined-up-network approach that allows us to speak to the right people. I come back to the fact that such activity is additional to core funding, which means that more people have to take on roles in addition to their normal job; so, if it is to be sustainable, it has to be funded.

Liam Sinclair: I will build on what Gavin Reid said. One of the key moves that the Scottish Government could make to enable that would be to move from the conceptual understanding of what cross-portfolio budgeting for culture could look like to actually incorporating it into budgeting. Not only would that provide a really clear mandate with regard to resource; it would hold the culture sector's feet to the fire in delivering across justice, health and education, and it would enable some funding to flow not just from the culture and external affairs portfolio, but, explicitly, from other Cabinet portfolios.

10:15

Craig Hoy: That takes me neatly to my next question. One of the recommendations in your report is for more regular meetings with ministers. Do you feel that, although you have access to, say, the culture minister, in all those other areas where you could be having a positive economic or social impact you are not necessarily enjoying the same access to public policy makers and decision makers?

Liam Sinclair: There is, absolutely, an understanding that cabinet secretaries and ministers have an extraordinarily full workload, but I think that there is room for such an opportunity there. Colleagues have talked about the opportunities ahead and, indeed, a potential opportunity gap if we are not careful. I think that that area needs to be looked at.

The range of challenges that the next Government will face following the election is significant. We do not need to re-rehearse them now—

The Convener: We will be doing so this afternoon. [*Laughter*.]

Liam Sinclair: I will leave that to you in the first instance.

We are really clear that a nation's cultural health absolutely contributes towards the health of a nation's social fabric and how it faces the challenges over the next five years and the next parliamentary session.

Gavin Reid: I would say, as a very quick PS to that, that evaluation is very important in this area. We can talk passionately all day long about this, but you need to see the evaluative evidence, and one thing that we, in the SCO, are ready to press go on is the creation of a new evaluation post in the company. I have to say that it is all rather dependent on what happens this afternoon, but it is in our strategy and we want to do it, because we know how important it is.

The Convener: I will ask a lot more about that, if it is not touched on. After all, it is the nitty-gritty of what the finance committee does.

Michelle Thomson: My question goes back to the opening thread. We are the finance committee, so I want to ask you all about your hopes and expectations with regard to today's budget. Moreover—and this leans into a lot of the talk about multiyear funding and the commitments made in that respect—can you tell us, with an honest reflection that we are not living in a perfect world, what perfection would actually look like?

I do not know who wants to come in on that.

Steven Roth: Thank you for the question. I will approach it on the basis of the conversation that we have just been having about health and wellbeing.

Scottish Ballet has been incredibly successful in raising funds for our national centre for dance health, for instance, where we run programmes for those with multiple sclerosis, Parkinson's disease and dementia, as well as for young people's mental health and wellbeing. We have increased donations—particularly from trusts and foundations—sevenfold, and we are now generating more than £2 million a year. When I started with the company, we were raising about £230,000 each year.

That money is specifically ring fenced for those programmes, and it enables us to run them. However, they are growing like mad and we cannot keep up with the demand. Every community in Scotland wants one of these programmes, because it has people with dementia or MS, troubled kids and whatever.

We could keep growing and growing that approach, but, in a way, it masks the underlying problem, which is to do with financial sustainability. We need a really strong core business that is financially sustainable, so that we can do all of that enrichment activity, which is, essentially, an add-on. It is not a bolt-on in the sense that we are doing it just because we want to; as all of my colleagues have been saying, we think that it is fundamentally important that it is holistic. We are great arts companies that are performing on stages at the highest possible level and, in doing so, are representing Scotland, but we are also doing this incredible enrichment work around the country, whether it be with young people or people at the end of their lives.

So, we need to be in a financially sustainable position. Scottish Ballet's current grant is £100,000 less than it was in 2010. In other words, we have lost roughly 36 per cent of the value of our grant, which is roughly £2.4 million, and we have had to raise that money through philanthropic grants, trusts, sponsorship and so on, as well as through audience income by bumping up ticket prices.

There is a fine balance to be struck there, because if you push ticket prices up too much, you end up in a position in which you cannot have a diverse audience, because you cannot offer performances to everyone, unless they can afford it. Therefore, the ideal scenario would be to go back to the situation that existed in 2010, to have some kind of restorative funding uplift, in the same way as Creative Scotland has benefited from the £100 million in the past 12 months or so, and to look at how we can keep ahead of inflation, because the cost of running our core business is through the roof.

I have said this before, and I said it in the paper as well. We are spending more than £200,000 a year on accommodation in Edinburgh, and I am not talking about five-star hotels. That is the cost of taking the full company from Glasgow to Edinburgh to perform in the Festival theatre three or four times a year. That costs more than £200,000 in accommodation alone, and the Government has just given local councils the authority to charge a 5 per cent bed tax, which means that, from this year, we will be paying £200,000 plus an extra 5 per cent. That is not sustainable.

How can we deal with those ever-increasing costs? The theatre is putting extra costs on us. We have to take all our equipment to every theatre that we go to, because the theatres are struggling to keep up with the best technology and the best equipment. We are subsidising a lot of the cultural ecosystem of Scotland.

If we are to do the very best that we can on stage and provide role models for young people, as well as hope, aspiration and so on, we need to be robust and financially sustainable, because, if we are not, the whole house of cards will come down. In the most recent financial year, we made a very small surplus. In the two years before that, we ran deficits of upwards of £1 million. It is really tough to keep the core business strong and sustainable so that we can do the wide range of activity that we do.

Michelle Thomson: Alistair Mackie wants to come in.

The Convener: So does Alex Reedijk.

Michelle Thomson: Sorry, Alex. This question might be for either one of you. In fact, it is a gentle challenge for all of you.

Alistair said that the RSNO has managed to increase its income by something in the order of 30 per cent since 2009, but the fact is that all the national performing companies have managed to increase their income in the face of diminishing grants. Therefore, I would argue, for the sake of discussion, that you should have been doing more.

The Government might think, "Well, you've managed." When Alistair appeared in front of the Constitution, Europe, External Affairs and Culture Committee, he talked about setting up an endowment fund. Although I am not disagreeing with any of you—I am a very strong supporter of the arts—I can see why the Government might say, "Look at what you've managed to do with a real-terms cut." Hence my challenge about whether you have been doing enough.

I want to pick up on the multiyear funding element and ask whether that is flowing through. I can see that Liam Sinclair wants to come in as well.

The Convener: We will let Alex Reedijk come in.

Alex Reedijk: I want to briefly respond to your first question, which was about where we sit from an aspirational point of view.

It is fair to say that, over the course of the summer, there were conversations with the Scottish Government in which it was intimated that it had done a very good thing for Creative Scotland through the uplift in funding for culture and its 250-odd regularly funded organisations. The festivals also benefited from an uplift because of their contribution to "brand Scotland". As a result, we were travelling, perhaps naively, with a collective sense not of expectation—that is not the right word—but of hope that there would be a recognition that it was "our turn", because of the lag over the past 15 years and the diminution of our core funding. As we sit here today, the reality is that that aspiration is unlikely to be met—it could possibly be dashed—which will create a whole series of challenges for us.

In relation to your second point, among the many issues that we face is a problem with staff retention—that relates to Alistair's point about salary levels—and a diminution of activity. In addition, I do not think that we should be naive about the impact of theatre tax relief and orchestra tax relief through Westminster, which has flowed through all our organisations and has spared blushes. Without that theatre tax relief, we would not be viable entities.

The Convener: I am going to let Liam Sinclair and Gavin Reid in. Three members—Michael Marra, Patrick Harvie and Liz Smith—have not come in at all, so we will have to move on after Liam and Gavin have spoken.

Liam Sinclair: I will pick up on the real need for multiyear funding. The national portfolio of companies is lacking a long-term planning horizon at the moment. On your ambition point, we have absolutely grown our income. I will illustrate that with an example of why those things go together. In National Theatre of Scotland, we have, over the past few years, been consistently exploiting the commercial opportunity of the product that we make. We have been working with a number of London-based commercial producers in a strategic partnership. "The Fifth Step", which was initially a partnership with Edinburgh International Festival—Jack Lowden starred in it, and it played to huge success in 2024—has just completed a west end run with two commercial producers. In a partnership with National Theatre of Great Britain, we have just had the second-highest-selling title on the National Theatre live platform, and we are talking about potential Broadway transfer and broadcast partnership.

That all needs a long-term horizon, but, on your point about how we have grown revenues, there is revenue benefit to that. The more of a stake that we can put into our national drivers, the more we can get back out of that, but we can feel confident with such a commercial strategy only if we are underpinned by long-term planning horizons from the Government. The real winner in all of this is brand Scotland. For a Scottish-made title to be the second-highest-selling title on an international streaming platform for theatre is an extraordinary thing, but it is underpinned by a multiyear commitment from the Government and the correctional point that Steven Roth was talking about.

Gavin Reid: It has been the story of the performing arts for a very long time that ambition and resource are a bit like the bite points in a car. You want your ambition to be slightly ahead of resource, so that resource is catching up. That has been stretched, and we are on thin ice at the moment, to be honest. It is a matter of choices.

You ask a good, pertinent question. Government will say, "You're doing okay. You've done this, that and the other." My orchestra is freelance. None of the musicians are on a permanent contract. They are all on salary, so a major part of the job for me and my colleagues is to create the work that will attract the players and, crucially, retain them. We are asking them to come and live here. We are, regrettably, used to presenting deficit budgets to our board and then spending the year trying to make good. So far, we have just about done that, but it is getting harder and harder every year. On staff resource, it is fair to say that we have just about enough people to deliver the work that we set out to do, but it is not comfortable. There is no fat—I was going to say that there is very little fat, but there is no fat.

On increasing income, when I started in this job, in 2016, we were raising just £600,000 a year in philanthropic income. We now have a target of £1.5 million, and this is a company with a turnover of just under £6 million. For us, philanthropic income is where a lot of the additional income is coming from.

The Convener: Alistair Mackie, did you want to come in on that point?

Alistair Mackie: You asked what our hope was for this afternoon. It is amazing that the Government has put £70 million more into the culture sector: £50 million has already been delivered, and £20 million has been committed to Creative Scotland in the second year of the funding agreement. Creative Scotland organisations got a reset. Given what this group of companies does for the cultural ecosystem, as well as the value of the work that we do and the support that we give to the education sector, I would find it extraordinary if that £100 million was spent and this group of performing companies did not get a significant reset. We have done well, we have found efficiency and we have grown income, but the truth is that we pay too little. Our extra rates are the lowest in the UK. I am really sorry to say this, but RSNO salaries are way lower than those of, for example, the BBC Scottish Symphony Orchestra, which is on the other side of Glasgow. We have all been entrepreneurial and creative, but the truth is that we are having to pay less in order to balance our budgets. I do not think that that results in diversity, and, ultimately, it does not give Scotland what it needs from its culture sector.

10:30

Michael Marra (North East Scotland) (Lab): I would like to explore the issue of the ecosystem, which has been touched on in different ways. For the national companies, we are talking about the national funding in the budget—the direct funding—but that has a relationship, as some of you have touched on, with local government funding and the sustainability of other parts of the ecosystem.

John Mason kindly referenced “The Glass Menagerie” that was put on by Dundee Rep theatre, but the front page of *The Courier* in Dundee this morning talks about a threat to the Rep’s funding from Dundee City Council. How fragile is the ecosystem, given the other pressures on local government that are coming through? I will come to Liam Sinclair first on that example.

Liam Sinclair: I am happy to answer—thanks for the question. The national cultural ecosystem infrastructure is vital to us all, and we cannot do our job without it. The correctional adjustment through Creative Scotland has been welcomed by the ecosystem, but there are significant pressures coming through local authority budgets, which is exactly the challenge that Dundee Rep and the other cultural institutions in the city face at the moment.

In the National Theatre of Scotland programme, two of the most substantial pieces that we are making in the current 12-month period are both in co-production with Dundee Rep. “Make It Happen” was one of the key highlights at the Edinburgh international festival last summer, and we are about to present and tour around the country “The High Life” as part of our anniversary season. We need strong partners across the nation to either co-produce or present with. Therefore, the health of those organisations is really important.

Even with the correctional adjustment to the Creative Scotland budget, and its ability to pass that on, the ecosystem is still fragile. All the pressures that are affecting us that we have touched on are affecting our partners across the nation, including pressures in relation to retaining audiences, pressures on salary bills, costs of energy and so on. It is really important that we take an holistic view so that we can achieve the national cultural strategy objectives, have a strong culture offer for everyone in Scotland and ensure the international reach of Scotland’s culture.

Michael Marra: That must be critical to talent as well. Steven Roth, the Scottish Dance Theatre is also based at Dundee Rep. When it comes to making sure that you have a group of people working in the performing arts, including in dance, who can cycle through different productions in different ways, have you seen a local vulnerability?

Steven Roth: We have a programme, which we call our associate programme, through which we draw young people from across Scotland and Northern Ireland. Like a sports team does, we go out there and pick the best talent available. We have more than 500 applications to the programme. We take around 220 kids and we give them intense training throughout the year in order to give them the skills and the confidence to then, say, apply to the Royal Conservatoire to do a more professional dance course.

Some of those kids will go into ballet and end up with our company or other ballet companies around the world. Some of them will do contemporary dance and end up in, for instance, Dundee.

Our company is all full-time professional dancers. We rarely use freelancers because we have a core group. Occasionally, we partner with the Royal Conservatoire—for instance, right now, we have a group of dancers from the Royal Conservatoire performing in “The Snow Queen” around the country.

There are young people doing dance in almost every community across Great Britain because young people love to dance. If we get them early enough, train them and give them those pathways and opportunities, we will have a really healthy ecosystem all the way through to the profession, including people who perhaps do not want a professional dance life but want to teach in schools or run community groups. We have also talked about health and wellbeing. The additional benefit of having strong national companies is that they can meet those objectives and produce role models for aspirational young people wherever they are.

Michael Marra: Thank you.

We have partly touched on the pressures on local government budgets flowing through to the cost of space. Is that something that various organisations are experiencing?

Gavin Reid: I will make two specific points on that. The RSNO and the SCO have worked in partnership with the BBC Scottish Symphony Orchestra for the past 30 years to present a programme of work in Perth.

For both of us, that means holding two concerts a year. Perth concert hall is part of that partnership and adds some other concerts, so it has a good package to offer audiences. Once we develop our community and schools programmes, we present them in and aim them at the Perth and Kinross area.

There used to be a contribution from the Perth and Kinross common good fund, which match funded the third party funding that we received, and that funding paid for the hall hire. However, that funding went by the by some time ago, so we now have to pick up that bill.

The whole project is funded through money from third party trusts and foundations. We have worked with the Gannochy Trust, which has been an amazing partner, on a three-year cycle for 30 years. We meet the trust every three years, but we simply cannot rely on it, because it has other calls on its time. That is one example of a significant part of our performance, schools and community work that is under threat because of a lack of local authority funding.

Another example relates to Inverness. Not so long ago, Eden Court theatre in Inverness was one of the few fee-paying promoters in Scotland, and there was an orchestral series of about 10 concerts. That funding has been eroded. Frankly, getting ourselves to Inverness once a year is about as much as we can do, because of the cost.

We all work, in one way or another, with the Royal Conservatoire of Scotland. I make a personal declaration that I used to be a governor and am now a trustee of its endowment trusts. I know that there have been many conversations about whether the conservatoire should be funded primarily through education funding or culture funding—it provides cultural provision, but it is an education provider. I am also a trustee of the Associated Board of the Royal Schools of Music, which includes the Royal Academy of Music and the Royal Northern College of Music. The funding model in England is entirely different from the funding model in Scotland, and the conservatoire, to its detriment, falls between the two stools.

Alistair Mackie: On local councils, I took the time last night to look at our 2009 accounts. We received £4.3 million from the Scottish Government, which is more than we got this year, for our core grant. We also received £565,000 in grants from local councils, whereas that figure will be less than £10,000 next year. However, that does not tell the real story. Local councils used to pay higher fees to orchestras and other people to go and perform. Now, we have to take the risk. We hire their halls and try to sell tickets. In 2009, various towns and cities in Scotland supported the RSNO and our other national companies through direct grants and hires, but that position has now turned around completely. We are hiring their halls, taking the risk and losing money to go and perform there. There has been a seismic change in the relationship between local councils and the performing companies.

Patrick Harvie (Glasgow) (Green): Good morning. I have a two-part question—I will roll it together to save time. It is about the principle that you cannot change something without measuring it.

First, my experience—albeit that it was on a much smaller scale than yours—when I was on the board of a small arts festival, was that funders increasingly did not want to know about the quality or relevance of the work that we were commissioning or programming; they wanted to know how many hotel beds would be filled as a result of the festival. That sometimes created pressure to move towards work that might be relied on to be a bit crowd pleasing and to move away from work that we thought was more relevant and that was high quality but could be challenging or perhaps provocative. Do the national performing companies feel under similar pressure as a result of the requirement to report on their economic impact?

Secondly, in relation to how you report your economic impact, the research report that we have in front of us is all about the headline figures. Are you able to distinguish between the types of economic impact that you generate? For example, a—dare I say it?—crowd-pleasing performance of a very well-known or familiar piece of work in a prestigious venue might generate a large amount of economic activity that mostly goes through internationally owned hotel chains, whereas other types of work might generate a lower overall scale of economic activity but might be more likely to benefit locally owned businesses or demographic groups and geographical areas for which that economic activity would be more meaningful. Can you distinguish between the types of economic activity or benefit that you are generating, as opposed to just the scale of it?

The Convener: Alex, do you want to come in on that question?

Alex Reedijk: I am happy to attempt to answer it.

I would probably spin it back and, reflecting on my own organisation, say that we have to be not only fiscally prudent, stable et cetera but artistically prudent, stable and interesting. We hold all of those things in equal tension. There is a tension between, say, doing "La Bohème" as we did last autumn—which was, referencing other people's comments, an extraordinary success at the box office—

The Convener: Excuse my interrupting, but Michael Marra said that it was magnificent.

Alex Reedijk: That is brilliant—thank you. We will take that.

I guess that my point is that the audience numbers were the best that we had had since before Covid; we had a real sense of audiences returning to us. However, in the same way that no one goes to a restaurant and has the same meal every time, we think that, artistically speaking, we have to nourish not only our audiences but the creative teams who make the work and the venues in which we present them.

Therefore, we are holding that repertoire-versus-money aspect in tension and balance at all times. Sometimes, we will do "La Bohème" and expect to play to full houses, and at other times, we will do other things; for example, our new world premiere of "The Great Wave", which we are putting on in partnership with the Japanese Government, is coming up. We are planning on having full houses, but we will not be doing nearly as many performances. It is partly about yield, which brings us back to the point about efficiency, but it is also about making sure that we offer our audiences a good array of, in our case, opera.

Does that sort of answer your question?

Patrick Harvie: It does, in terms of the programming element. I am not sure whether, as you move forward, you are looking to change how you do economic reporting so that you can distinguish between some large economic impact that can be demonstrated and some economic impact that will perhaps be more meaningful and make a bigger difference in certain parts of our economy.

Alex Reedijk: Again, it comes back to the tension between economic benefit and artistic benefit. We would always look to be as financially efficient as possible and to deliver as many jobs as possible, but that cannot always be equal to box office outcomes or, indeed, the work that we are doing.

Patrick Harvie: Does anyone else have a view on this?

Alistair Mackie: Now that we are in the second phase of our survey, that is a really good challenge to us to try to differentiate between those things. I do not like the idea of putting money into international hotel chains; I love the idea of putting it into small communities around Scotland. It is a really important challenge to us to get the numbers for that.

There are things that might be easy at the box office—say, the film and video game concerts that we put on and which sell out—but those are really important, because I want to be in front of people who are not living in the classical music bubble. I want to be relevant to broader communities. The film scores that we do for Hollywood have real economic value, but I think that more people in Scotland who watch films will have a sense of ownership of their national orchestra if they can hear the scores for those films.

It is an interesting conversation to have. We used to put our film concerts at the back of our brochures as a kind of add-on; it was as if we were saying, "The proper stuff's at the front, and if you don't like that, there's film stuff at the end." I think that that insults our audiences. If you love video game or film music, you should be able to hear it at the highest quality, played by the national orchestra.

I think that more evolved economic analysis would be of value, and I take that as a challenge. I do not think that we have enough of it.

Liam Sinclair: I thank Patrick Harvie for the question, because it highlights the broader challenge of articulating the impact and benefits of Scotland's national cultural strategy. We are all really proud of the fact that we exist in a nation that has a culture strategy; however, although it describes broad benefits and contributions, it is perhaps less strong when it comes to really punchy impact measurements across the full portfolio of strategic intentions.

This links with my earlier point about cross-portfolio budgeting. Despite people's best intentions, culture is still seen as a kind of slightly nice-to-have sensibility in light of all the health, justice and other pressures that we are facing. If it could be woven in in a more fiscal way through the next parliamentary session in terms of how the Parliament views such things, the impact measurements that your question relates to would be sharpened up. Indeed, those sorts of measurements would have to flow through, because there would be a fiscal requirement to understand the impact and contribution of this bit of the justice budget, say, or that bit of the education budget.

Patrick Harvie: Thank you.

10:45

The Convener: To be fair to the performing companies, the impact assessment report goes some way towards doing that, because it emphasises the proportional importance of community engagement, for example, as I mentioned earlier, relative to the big performances in the cities. There is a proportionally greater benefit to going out to smaller places and engaging with schools and so on.

I want to move on, because we are running out of time—we have only about 15 minutes left and I want you all to have a minute or two to round up.

Despite all the talk of reduced funding, the Scottish Government still provides 46 per cent of the overall funding, so the public sector and other sources account for about 60 per cent of funding. Around £8.8 million comes from ticket sales. That makes the sector vulnerable.

The assessment says that although only one in seven tickets is sold to people who live outside Scotland, of which around half are from England and around half are from the rest of the world, those sales brings in about a quarter of the GVA. Are the companies considering placing more emphasis on attracting people from other parts of the world—even if it benefits big hotel chains—to come to Scotland and to enjoy the arts while they are here?

For example, when the committee visited Vilnius, I went to the ballet. We saw that they have built a new opera house and they are building yet another massive concert hall in the middle of Vilnius. They also have a facility for their orchestra. They are going big on the arts, so to speak. That must be to attract people from overseas, because I would not think that they would have a core audience in the city to sustain that.

What your views are on that? Although the public sector will always be critical to your long-term survival and sustainability, what else can be done to boost that, other than the Scottish Government, local authorities and so on providing additional funding?

Who wants to kick off with any of those issues?

Gavin Reid: I will have a go at that. Your question brings to mind the Dunard centre for the Scottish Chamber Orchestra. You will all know where we are with the building of that. The genesis of the conversations around what we now know as the Dunard centre was to create a new home in Edinburgh for the Scottish Chamber Orchestra. The earliest discussions on how to fund it and whether public funding would be attracted to such a project was a direct approach some 10 or 11 years ago to the Scottish Government to inquire about seed funding.

We now have funding, as you will know, through the Edinburgh and south-east Scotland city region deal, of £25 million, plus the extremely welcome additional £20 million that was announced before Christmas from the Scottish Government to enable the construction contract. This is all in the public domain. That £45 million pounds of public funding is supporting the construction contract of around £160 million. I can rehearse all the GVA figures for that particular hall—I have them here. However, the point is not simply to create a lovely new concert hall for the Scottish Chamber Orchestra to play in for part of the year but to amplify the power of the arts, attract new audience locally, nationally, UK-wide and—absolutely—internationally, and to invest big time in Scotland's cultural infrastructure. You will have heard many people say—it is pretty much in every press release—that it is the first concert hall in Edinburgh in more than 100 years. It is the first one to be built since the Usher hall.

We also have the prospect of the national centre for music, which will complement what the concert hall will do and provide multiple opportunities for participation at grass-roots, professional, school, and further and higher education levels.

That is an example of significant public investment matched with, I have to say, very significant private investment and philanthropy on both sites, enabling a truly once-in-a-generation transformational opportunity, which will inevitably attract international attention.

Liam Sinclair: Your question goes to the heart of what the strategy is, for us as a collection of five organisations, and for the Government. That is two-pronged. We are all businesses, as well as national cultural assets. Healthy businesses diversify their income and resilience to face the economic landscape. We are all committed to that. That sits side by side with a simple and important question for the nation, which is whether it wants a collection of nationally recognised performing organisations. If it does, there needs to be an underpinning of grant funding matching that ambition.

It is right that we are all challenged to diversify our business and resilience, but it is also right that that is met with a commitment to the Scottish Government's culture budget, and to the £100 million commitment being pushed and increased in line with that.

The Convener: I will let Liz in. We have only about 10 minutes—

Liz Smith: It is just a—

The Convener: Hold on. Before you say that, I want to let folk know what is happening.

We will have about 10 minutes following Liz Smith's comments, so I ask our guests to think about what they would like to say in winding up. I will give you all an opportunity to make a final contribution. Our next evidence session is with witnesses from the Office for Budget Responsibility, and I can see that they are staring at us from the public gallery, so we do not want to keep them waiting too long.

Have a think about what you want to say to wind up. We never got on to freelancers, so somebody might want to talk about that, because there is an issue about the ratio of permanent employees to freelancers.

Liz Smith: I have a quick question for Alex Reedijk. You mentioned the capacity of teachers in schools and said that you feel that we do not have the musical skill base that you would like. Is that a teacher training problem?

Alex Reedijk: The short answer is yes.

The Convener: Who wants to go first in winding up? You will all be brought in. Alistair Mackie can go last, because he started, so I will give him the final word, which is only fair.

Steven Roth: I am happy to pick up on a couple of things. Thank you for introducing freelancers to the conversation. I want to respond to Patrick Harvie on economic benefit. Benefit in general is not always as obvious as is set out in a report such as that by Biggar Economics. Biggar Economics has a template and formula for casting the net across our organisations, getting all the numbers and pulling them into a format. That is one thing, but there are a lot of hidden benefits that sometimes outweigh all that.

I will use freelancers as an example. As a group of national companies, we all employ freelancers, particularly for touring, and for production, lighting and sound. Those freelancers need enough work to maintain their residence in Scotland and to be able to live and work here. We also need to attract the best people here and give them enough work. There is a spin-off in our all having strong companies that employ freelancers, but the hidden part is that those freelancers often work in the film industry—that is the internationality part.

Scotland is punching well above its weight in producing films and having international players here, with Alistair Mackie's orchestra often playing the scores for the films. The freelancers who are working for us are also picking up work with those international film companies. That means that they can live, work and survive in Scotland, and that brings its own economic benefit. We are attracting talent into Scotland, and those people are determining to live here because there is enough work for them. If you take out one piece of that ecology—whether that is because a national company goes or the film industry collapses or whatever—those people will not be able to sustain themselves over a year. Therefore, they will leave and there will be no economic benefit.

There are always a lot of intangibles that are not necessarily factored into a report such as that by Biggar Economics. We have to remember that the situation is very interconnected. We are all here to do two things: to deliver value back to Scotland and to deliver value back to the people of Scotland, artistically and culturally, and in relation to health and in every other way we possibly can.

Liam Sinclair: I will take us back a little. If this evidence session was happening 25 years ago, you would have four national performance companies in front of you, because the National Theatre of Scotland did not exist. It is 20 years old this year. It exists because there was a campaign by the entire theatre community in Scotland—predominantly that freelance workforce—to say that the situation was not right and that, as a nation, we needed a national theatre.

We have been reflecting on that in relation to the storytelling around who we are as an organisation. To pick up on Steven's point, we needed a national theatre because you cannot make theatre without the freelance workforce—70 per cent of theatre in the UK is made by freelancers. That is just a fact. The more precarious being a freelancer becomes, the more at risk we all are of not being able to make the quality output that Scotland is known for. It is vital that stability and regular employment opportunities are provided for freelancers.

Gavin Reid: I could say exactly the same as Liam about freelancers. The Scottish Chamber Orchestra is a freelance orchestra and there is absolutely no guarantee year to year about the level of work that people will get and therefore what they will earn. We have gone into that in some detail.

This speaks to how, as arts organisations, we measure success and the balance of a social impact report and a thorough economic impact report helps to tell those stories. One of the most profound and meaningful experiences that I have had in this job was in a community hall in Yell, in the north of Shetland, where half of the orchestra—because we could only fit half of them into the community hall—played to about 75 people who had never seen an orchestra up there before in living memory. It was one of the most extraordinary opportunities and we will all have similar stories. Last summer, we were at the proms in front of 5,000 people and on television and the radio. Whatever scale we are working at, however, there is no difference in the quality of the social impact.

I will leave you with the thought that this is a remarkable once-in-a-generation time. Of course finances are tight, but it is a time of enormous opportunity when we are all understanding—not simply realising—the significant health and wellbeing benefits of the arts across the board. With a nod to Alistair's point about the £100 million, I absolutely believe that this is a time to invest.

Alex Reedijk: I have a slightly different reflection, which is that the fact that we are here today is an example of the close relationship between the five largest performing arts companies and the Scottish Government and, therefore, the people of Scotland. That is a fantastic thing. That direct relationship between the companies and the Government is held up across the rest of the UK as an exemplar of very best practice. It is also true, despite our having been a bit gloomy today, that our working models are fundamentally held up as exemplars of good modern practice. I would take some heart from that.

I note that the vast majority of freelancers are freelance through choice; it is their choice to have a portfolio career. It is certainly our duty to nourish that sector as much as possible, but nevertheless, people do it happily and choose to be freelancers.

There is something in recognising that the Scottish Government and the Scottish Parliament take culture incredibly seriously. Thank you for having us here today.

The Convener: Alistair, we started with you and we will finish with you.

Alistair Mackie: I have two very quick points to make. We must recognise how money flows through the national companies into communities and the wider arts ecosystem, and we must recognise how the skills that are brought to Scotland because of the national companies are put at the service of our education sector and the wider ecosystem. We are essential to the Scottish cultural ecosystem. That is the first thing.

The second thing, which Liam talked about, is cross-portfolio work. I think that it is often seen as us coming after someone else's budget—a health budget or an education budget. NHS England had 1,000 link workers to connect arts organisations with healthcare initiatives. They did an economic analysis and then increased the number of link workers to 4,500. That was not a charitable act, but economic sense and it is great to be here so that we can talk about economic benefit. If we are integrated into education, we provide tremendous value and we can turbocharge cultural education in Scotland. We can also turbocharge wellbeing initiatives. That has a positive economic return; it is not a negative. We are not here to beg for money; we are here to offer something that genuinely contributes economic and community social benefit to Scotland. We are essential, and it would be incredibly important and sad if we did not get a significant part of the £100 million uplift.

The Convener: Thank you very much. I think that that has certainly been taken on board by me and my colleagues.

We have 25 seconds left of the evidence session. It behoves me to thank the representatives of Scotland's five national performance companies for coming along today. Thank you for your excellent contributions and a really interesting discussion. I look forward to seeing you all again soon.

I call a five-minute break to allow for a changeover of witnesses and a short break for members.

11:00

Meeting suspended.

11:05

On resuming—

Budget Scrutiny 2026-27 (United Kingdom Context)

The Convener: The second item on our agenda today is an evidence session with witnesses from the Office for Budget Responsibility, in relation to the UK context for the forthcoming Scottish budget for 2026-27. I welcome the following witnesses: Tom Josephs, a member of the budget responsibility committee; Laura Gardiner, chief of staff; and Rosie Colthorpe, deputy director for economy. Good morning and welcome to the meeting. I intend to allow about 90 minutes for the evidence session, although that might slip a little, and I invite Mr Josephs to make a short opening statement.

Tom Josephs (Office for Budget Responsibility): Thank you very much for the opportunity to speak to the committee today and for your flexibility in agreeing to change the date of this session following the resignation of Richard Hughes after the UK budget. That change of date means that you will benefit from the considerable expertise of Laura Gardiner and Rosie Colthorpe and that you will not have to listen to me for 90 minutes, which is definitely preferable.

You will be aware that Richard Hughes resigned due to people being given early access to our report on budget day, which was a serious issue and a serious breach of budget confidentiality. We launched an immediate investigation into the causes of that breach and are currently in the process of implementing all the recommendations of that investigation, to ensure that it does not happen again.

I will run through some of the key points in the content of our November budget forecast. The biggest economic judgment that we made in our forecast was to downgrade our view of UK productivity growth by 0.3 percentage points per year, following a detailed study of UK productivity performance that we carried out last summer. We also made other important economic judgments. Most notably, we increased our view on growth in nominal earnings and inflation on the basis of recent outturn being higher than we had anticipated. That is an important driver of tax revenue, and therefore, despite our productivity downgrade, we actually forecast higher tax receipts than in our previous budget forecast, in March.

We also quite significantly increased the forecast for public spending, particularly in the three key areas of welfare, local authority spending and debt interest. That meant that our overall view on public sector borrowing was a bit higher than we previously expected back in March last year. In the medium term, the change in the borrowing outlook is for a relatively small £6 billion increase in the context of a £3 trillion economy within which there is roughly £1.5 trillion of public spending and taxation. The figure of £6 billion is actually a relatively small change in the outlook.

You will be well aware of the Chancellor of the Exchequer’s policy decisions. Briefly, she decided to increase spending, which was largely a reversal of previous welfare policies, and to quite significantly increase taxation, primarily through extending the freezing of personal tax thresholds, although there were a number of other tax measures. Overall, that meant that the chancellor met her fiscal rule with an increased margin of £22 billion, compared to the £10 billion margin that she had back in March of last year.

To take a step back, it is the case that the UK’s fiscal position remains challenging. Our debt is at elevated levels, having risen more quickly than in most other advanced economies over the past 20 years, and is now at around 45 per cent of gross domestic product, which is higher than the average for advanced economies. Our deficit has also remained at a high level since Covid and is higher than the advanced economy average, and UK Government borrowing costs are also relatively high.

We have a challenging fiscal environment, and there are many risks and uncertainties around our central forecast. Those risks are to both the upside and the downside. We discuss a number of them in detail in the report, including the outlook for productivity and the risk of an equity price correction. We look at pressures and risks around particular areas of public spending such as health, local government and defence, and we look at some of the risks from the rising tax to gross domestic product ratio in the forecast.

Focusing on Scotland and the devolved tax forecasts, I note that our latest forecast includes slightly higher Scottish tax revenues in the medium term, which are mainly driven by higher Scottish income tax receipts. That is due to our view that nominal earnings will be a bit stronger than we previously thought, and it is also a result of the UK Government policy to extend the personal tax threshold freezes. We assume that the personal allowance freeze applies to Scotland.

This time, we have expanded our analysis of the Scottish net tax position. That is the difference between the block grant adjustment and the forecast Scottish tax revenues, and it is therefore an important indicator of Scottish Government spending power. We expect that position to widen over the short term, essentially because of the different structure of Scottish income tax rates compared with those in the rest of the UK. We expect it to then fall slightly in the medium term. That is driven by the demographic outlook for Scotland compared with the rest of the UK and also the policy of threshold freezes in the UK. The assumption in our forecast is that, after 2026-27, the thresholds in Scotland will rise in line with the consumer prices index.

I hope that that is a useful overview of the forecast. I will stop there, but we are very happy to take questions on any of those issues or answer any other questions that you have in mind.

The Convener: Thank you. It is not the easiest task to boil down a 200-page report to maybe 20 minutes of questions and answers that will pick out some key points. My colleagues will have a number of questions that they want to ask, but first I will touch on some of the things that you mentioned in your opening statement.

Accuracy is obviously highly significant and important to forecasts. Where are you on that relative to the Scottish Fiscal Commission? Who has been the most accurate in forecasting with regard to, for example, productivity, overall growth and income tax?

Tom Josephs: That is an interesting and important point. Both we and the Scottish Fiscal Commission are very transparent about our forecast performance and the risks around every forecast that we produce. We produce an annual forecast evaluation report, which looks back at our forecast performance and assesses reasons for differences between the forecast and the outturn. We use that to learn lessons and to look to improve our forecasts in the future, and I know that the SFC follows a similar process to learn from its forecasts.

At the moment, the biggest difference between our two forecasts lies in our different views on earnings growth, which mean that there is a divergence in our views on Scottish income tax revenues over the medium term. In the short term—if we look at the past couple of years and the next couple of years—we have similar views on Scottish income tax receipts, on the basis of our current forecast and the SFC's previous forecast.

The Convener: Historically, who has been the most accurate? We have the SFC coming in next week, incidentally.

Tom Josephs: Yes. I am not sure whether I have any analysis on relative forecast performance to hand.

The Convener: The SFC would suggest that the OBR has always been a bit too optimistic on productivity. Would that be a fair assessment? I am aware that, as you have reiterated today, you are reducing your productivity forecast.

11:15

Tom Josephs: It is definitely the case. One of the things that we identified through the exercise that I talked about, which looked back at our forecast performance, is that we have been too optimistic in our view on productivity. As a result, we have made the adjustment that we have made in this forecast to reduce our productivity growth assumption.

Could I finish the point on nominal earnings?

The Convener: Of course.

Tom Josephs: In this forecast, we have increased our forecast for nominal earnings, recognising that recent outturns for nominal earnings and inflation have been higher than we expected. We expect nominal earnings growth to then fall back over the medium term, whereas the SFC expects it to be sustained at slightly higher levels, which drives its stronger medium-term outlook for Scottish income tax revenue.

For Scottish budget-setting purposes, what matters is the view over the next couple of years. We will obviously get a new forecast from the SFC very soon. The forecasts are not that different. You could see the difference in the medium term as useful information for policy makers on the range of possible outcomes, because nominal earnings growth is very uncertain—we are making a judgment, the SFC is making a judgment and we are coming to slightly different conclusions. That is helpful for policy makers. Over time, as new outturn information comes to light, you would expect those differences to narrow as the budget-setting window moves forward.

The Convener: I realise that we have an ageing population, but the point about downgrading productivity is astonishing when one thinks of all the new technological innovations that are coming in.

I want to ask you about the chancellor's fiscal headroom. I do not think that the phrase "fiscal headroom" has been used as much in recent years as it has been in the past few months. The chancellor has taken on board concerns about that headroom and has increased it from £10 billion to £22 billion, but your analysis says that that increases the likelihood of her meeting her fiscal targets only from 54 to 59 per cent—which means that there is still a 41 per cent risk that she will not. Why is a £12 billion increase in headroom providing her with only a 5 per cent greater chance of meeting targets? That seems quite strange to me.

Tom Josephs: As I mentioned in my opening statement, the context is that the binding fiscal rule for the chancellor is to balance the current budget in 2029-30. The current budget is the difference between tax revenue and all of Government's current spending. Those are two very large numbers—around £1.5 trillion each—so there is a huge amount of risk and volatility in our projection of both tax receipts and public spending. In relation to the difference between those two numbers, a margin of £22 billion is relatively small in the context of the size of the tax and public spending streams that we are assessing.

Moving from a £10 billion margin to a £22 billion margin makes a significant difference—indeed, with regard to the average change in our forecast from event to event, £22 billion gives you a lot more headroom against the risk. However, in the wider context of the risk and uncertainties around the public finances, it is still a relatively small number, which is why the probability of meeting the rule does not increase that much, even with that extra headroom.

The Convener: We have talked about the fact that, 20 years ago, we had one of the lowest debts—if not the lowest—of all the countries in the G7, yet now we have the highest, proportionately. Table 5.10 of your report says that central Government debt is forecast to increase from £105.7 billion in November 2024-25 to £136.6 billion by 2029-30—a whopping increase of around 30 per cent over the next five years—and that the proportion of debt in the UK will ratchet up a little, from 95 to 96 per cent, even though the amount being borrowed will decrease towards the end of the forecast period. Can you talk us through why the interest rates, which represent about £2,000 for every person in the UK per year, will be so high?

Tom Josephs: If you look at UK public sector debt over the past 20 years, you will see that it has increased rapidly. That has largely been the result of big shocks that have hit the UK economy—the financial crisis, Covid and so on—and pushed up Government debt due to the impact that they have had on the economy through the reduction in tax revenue and an increase in public spending, but also due to the Government's policy responses to those shocks, which have involved a large amount of public spending.

We have also seen that, essentially, between those big shocks, Governments have looked to consolidate the public finances, although they generally have not done so in a way that has meaningfully brought down debt in the periods between shocks. Essentially, over the past 20 or 30 years, debt has ratcheted up in the face of big shocks, has stayed broadly at that level and has then ratcheted up again when the next shock has hit.

As I said in my opening statement, that has led to the UK having a relatively elevated level of public sector debt. It is now much higher than the average of the advanced economies. As a result, the interest payment bill that is associated with that debt has also increased substantially.

Of course, what has also happened in the past five years is that the interest rate that the Government has to pay on that debt has also increased substantially. We had a period of very low interest rates in the 2010s, in particular, but then we were hit with the inflation shock following Russia's invasion of Ukraine. Interest rates increased substantially as a result of that and have remained at those relatively high levels. That means that the Government is having to pay a lot more to service that elevated level of debt than was the case in the past.

Looking forward, the additional borrowing over the forecast period adds to debt in the short term. We forecast that debt will broadly stabilise in the medium term but will not start to come down in any meaningful way. In essence, the stock of debt will stabilise at that higher level rather than coming down, which results in an increase in the debt interest costs that you were talking about.

The Convener: The UK Government is keen to encourage people to move away from cash ISAs and invest in equities instead—there were articles on the subject in *The Sunday Times* business section and so on. You have devoted quite a bit of your report to looking at the equity market and you have said that, over the next five years, equity prices are predicted to grow from 4,526 points in 2024-25 to 5,915 points in 2030-31—a 31 per cent increase. You have also talked about the potential for a correction—a shock—that could reduce that substantially. The FTSE this morning was at 10,146 points, so it is already massively over your figures—double, essentially. Where are we in that regard? What is the risk and what are the implications?

Tom Josephs: We identified the risk of a correction in global equity prices as a key risk at this forecast and ran a scenario that looked at that and the implications for the public finances. Rosie Colthorpe can talk a bit more about that.

Rosie Colthorpe (Office for Budget Responsibility): We made some scenarios, which are based on global equity prices. In the US, the price-to-earnings ratio is at its highest level since the dotcom boom in the early 2000s, and it is also higher than during the post-pandemic rebound. That might suggest that valuations are quite stretched. In the UK, the price-to-earnings ratio is much more closely aligned to historical averages, so the UK valuations may be less stretched.

However, because global equity markets are interconnected, we wanted to look at the potential of a fall in equity prices and the impact that that would have on the UK. Therefore, we considered two different scenarios. In one scenario, equity prices fell across G7 economies by about 35 per cent in the near term and remained about 10 per cent below our forecast in the medium term. That would have a relatively significant impact on GDP, taking about 0.6 per cent off in the short term. there would also be a small impact—about 0.1 per cent—in the medium-term. That is because business investment would be a bit lower due to the net worth of businesses being down and consumers spending a bit less due to their household wealth being down.

The Convener: That figure of 1 per cent of GDP would be £30 billion—

Rosie Colthorpe: Sorry, it is 0.1 per cent.

The Convener: Oh, 0.1 per cent—sorry, I thought that you said 1 per cent. So, 0.6 per cent would be £18 billion.

Rosie Colthorpe: It is something like that.

In the second scenario, a fall in equity prices occurred in other countries but there were spillovers into the UK because equity markets are interconnected. That scenario would have a similar impact on UK GDP, because lots of households invest in overseas equities, not just UK equities—we are not an isolated market. Lots of businesses in the UK are also international. There are lots of connections between countries. If prices were to fall drastically in the US and other advanced economies, there would be an impact on the UK's GDP; it would not depend on just our equity market coming down.

The Convener: The UK Government is trying to disincentivise people from using ISAs. Instead, it wants people to invest in equities because it considers that to be better for stimulating economic growth. However, if you are predicting that there is the potential for a 35 per cent reduction in the value of those equities, it might not be the best time to suddenly move money out of a bank account into those equities, particularly given the fact that, as I mentioned, equity prices are already double the level that has been forecast.

Rosie Colthorpe: That is just a scenario to illustrate the impact of falling prices; it is not our central prediction of what will happen. As you also mentioned, equity prices have gone up a bit since we produced the forecast in November. There are a wide range of risks around that forecast—to the upside and to the downside.

The Convener: One of the key issues regarding the UK budget is the increase in the amount of taxation; some £26 billion in extra taxes will be imposed, with a significant number of people moving into higher rates of taxation. Have you looked into the behavioural response that that will cause? When we take evidence from the SFC, we often talk about the behavioural impact of, for example, increasing taxation on people in Scotland who are in the higher bands. That behavioural impact can reduce the take by as much as 83 per cent. What is the likely behavioural impact of the tax changes in the UK budget?

Tom Josephs: Laura Gardiner can answer that question.

Laura Gardiner (Office for Budget Responsibility): There are a range of taxation increases in the budget. We have talked about income tax, so I will start there and maybe touch on other taxes. As members will know, this is not the first time that a policy to freeze income tax thresholds has been introduced—it is a kind of repeat visitor to the OBR's policy costings process. When we consider the Government's estimates for the amount of money that policy measures will yield or save, we always have a particular focus on behavioural responses. With any kind of policy that increases income tax, we will consider the different ways in which people might change their behaviour in response to those tax increases which typically reduce the yield.

I do not have the numbers to hand, but we have a well-evidenced set of taxable income elasticities that essentially reflect people changing the mix of income that they get from their labour and changing their behaviour in other ways in response to changes to tax rates, including freezes to the thresholds.

There are other areas of the tax increases in this forecast where we take a similar approach. For example, there are a number of aspects of the change in taxation of salary sacrifice pension contributions where we have considered the behavioural responses with regard to individuals and employers changing the structure of pension schemes in firms, the amounts of money put in and the amounts of money earned.

There is also the change in taxation of property income, which we might talk about a bit more. In that respect, we considered within the costings the small effects of any changes to rents and house prices and the yield there.

It is a typical part of our process with every tax and, indeed, welfare policy to think about those sorts of behavioural responses, and it is typically the case that, with all the tax increases that we have looked at in the budget, those responses will net offset some of the static increase in yield. In recent years, we have been not only thinking about individual tax costings but looking at this from a whole-economy macro perspective and asking, "Does this policy measure, or package of measures, change our view on, say, the employment rate and the willingness of people to supply labour, on investment in the economy and so on?"

11:30

The Convener: In paragraph 3.16 of the report, you say:

> "Real household disposable income ... is lowered in medium term by the rise in personal tax rises announced in this Budget, which decreases household consumption significantly ... This disincentivises saving",

and you also have a graph setting out the impact on GDP. The SFC, as I have said, will say, "This tax will nominally bring in £100 million, but because of behavioural change, it will actually bring in £5 million, or £10 million, or £15 million." Where are we with this tax package? Have you looked at which specific taxes will have the biggest impact on, say, behavioural change? I suppose that the smallest impact will be from those assisting fiscal drag, but which of the other taxes will have the biggest behavioural impact?

Laura Gardiner: I might ask Tom Josephs to help me out, because I do not have those figures to hand—[*Interruption*.] Here we go. With the freeze to income tax thresholds, the behavioural offset is quite small. For example, in the final year of the forecast, the policy package raises just over £10 billion and we estimate the behavioural effect to be quite small, at £0.5 billion.

With a more novel change, such as that to salary sacrifice pension contributions, where individuals and employers have quite a lot more flexibility in how they respond—Tom will pull the figures up for me in a second—the behavioural response was much larger than the 5 per cent from the change to income tax thresholds. It was, from memory, much closer to 30 or 40 per cent.

Behavioural responses depend on the range of options that people have for responding and with something like the structure of pension contributions, for example, and the salary sacrifice element, which is concentrated among higher earners, there are quite a lot more avenues to respond. That is why the behavioural response is larger.

The other thing that we highlight in the economic and fiscal outlook is that we are, again, forecasting the tax take—that is, the tax to GDP ratio—to reach record highs of about 38 per cent by the end of the forecast period. That is not a particularly unusual rate, internationally speaking; other countries manage that sustainably, so I am not saying that it will make the UK an outlier internationally. However, it is uncharted territory, and our forecast suggests that it is being achieved through a number of different changes to taxation in a number of different areas. Therefore, the risk and uncertainty around that are quite high, with quite a high likelihood of different behavioural responses that it is harder for us and the Government to anticipate as we reach those levels.

We highlight the uncertainty around our estimates of the yield from individual tax measures, particularly with regard to the behavioural responses, and around the overall tax take reaching record highs via quite a wide range of changes to the tax system in the round. It is tricky for anyone to think about the cumulative behavioural effects of that kind of change to the structure of the tax system.

The Convener: Thank you.

The increase in employer national insurance contributions has been a big issue over the past year. In its report last year, the OBR predicted that that would have an impact of some 50,000 jobs, but the hospitality sector alone has said that it has cost something like 169,000 jobs. Is that an accurate reflection of the impact on that particular sector, or have there been other things at play, such as the increase in the minimum wage or whatever, that have exacerbated that situation? In other words, having looked at this over the past year, can you tell us what the actual impact from ENICs has been, relative to the overall impact on that sector and the wider economy?

Rosie Colthorpe: You are right that we thought that eventually, after five years, employers would pass the higher costs on to their employees—about 75 per cent through lower real wages—and that the other 25 per cent would be absorbed by lower profits, with a bit more absorbed in profits, and maybe prices, in the short term; it is a bit easier to adjust prices and profits than it is to lower wages. You are definitely right that the minimum wage increase coming in at the same time has made it slightly difficult to isolate the different impacts. They are both impacting similar sectors, being more concentrated on lower-paid workers.

Since then, we have not changed our estimate of the overall impact on the economy. Some initial survey evidence suggests that perhaps more of the impact is initially being absorbed by profits rather than real wages and employment, but that was only one survey and it is quite hard to draw firm conclusions from it about the medium term. We have kept our assumptions as they are for now, but we will continue to review all the evidence as it comes in for our next forecast.

The Convener: Your October 2024 EFO report predicted 50,000 job losses. Do you still think that that is accurate, despite what the hospitality sector is saying about the impact on it? That is an impact on just that one sector, incidentally.

Rosie Colthorpe: Yes. I am not familiar with how the sector got to its estimate, but 50,000 is still our central estimate.

The Convener: There is only one more question from me, because colleagues are keen to come in. As a result of the budget, the Scottish Government will receive an extra £510 million in resource funding during the next four years and an extra £310 million in capital funding over five years. That represents about 0.2 per cent of resource funding and 0.7 per cent of capital funding. The report goes on to say that although that will create a boost in the short term, it will erode very quickly and there will be a small cut in day-to-day spending by 2028-29.

Laura Gardiner: That certainly matches our understanding of what the UK Government said about the consequences of its decisions on departmental spending. You highlighted some percentages that emphasise that the changes to the Scottish budget as a result of spending changes that were announced at the UK level are quite small. We should see them in that light. As previous witnesses have highlighted, they are particularly small in the context of our November forecast for higher UK inflation.

You also highlighted the time pattern, which is quite lumpy. There is an increase in the near term and the amount will be slightly lower in the medium term. We highlighted in the medium-term part of our EFO some of the risks with the Government's spending assumptions, particularly when we get beyond the period in which current detailed spending plans have been set, which was done in last year's spending review.

We also talk about things such as higher inflation—which I have mentioned—and the policy on special educational needs and disabilities in England, where the policy decision to absorb the cost of SEND provision from 2028-29 within the existing spending envelope has not been accompanied by specific plans as to how that will be accommodated and what will give elsewhere, so to speak.

The Convener: We are talking about special educational needs and disabilities potentially absorbing 4.9 per cent or £6 billion of the education budget down south. Am I right?

Laura Gardiner: We actually corrected that figure after the EFO was published, but it is definitely going in that direction.

The main point is that, beyond the impact on the mainstream schools budget, in the context of the UK budget, that is £6 billion that has been effectively absorbed within the overall spending envelope without any plan for how that will be done, whether within the Department for Education budget or more widely.

We then look at risks around spending on things such as asylum accommodation.

The Convener: The budget for that is increasing, despite the Government's proposals. During the past couple of years, it has increased quite significantly.

Laura Gardiner: There is certainly some evidence of pressures on the amount of money that has been set aside for asylum accommodation.

Similarly, within the Department for Health and Social Care there are risks around the on-going negotiations on branded medicines. We also look at the digital ID cards programme.

That is not an exhaustive list, but it is a set of examples that we have highlighted of the areas in which there are pressures on the UK Government's plans for spending, particularly beyond the period for which detailed plans have been made. In the Scottish context, given the history of lots of previous spending reviews and the point at which the UK Government comes to set detailed plans for the years concerned, the direction of travel has more often been up than down, in terms of moving from an overall envelope assumption to detailed plans. Should that come to pass, it will have similar knock-on consequences for the Scottish budget.

We can talk in more detail about any of the pressures that I have mentioned. We spend quite a lot of time on some of them in the "Economic and fiscal outlook". On the one hand, the slight squeezing of the UK spending envelope makes the medium-term position for the Scottish budget look a bit tighter than it already was prior to November 2025. On the other hand, we highlight the risks around the picture at the UK level changing over the coming years, given some of the pressures that are present in the data that we had when we produced our forecast in November.

The Convener: Okay. I have lots more to go on, but I am keen to bring in colleagues.

Craig Hoy: You examine various issues in paragraph 1.13 of the "Economic and fiscal outlook", including increased

"projected spending on welfare by £8 billion by 2029-30"

in England. Over the same period in Scotland, there is a projected increase in welfare spending of £4 billion, which is almost half the number for the whole of the rest of the UK. What are the risks to the Scottish budget of per capita welfare spending continuing to increase at a far higher rate here in Scotland than in the rest of the UK? What impact will it have on the Scottish budget, Scottish productivity and Scottish growth if the Scottish Government continues that trend?

Laura Gardiner: That is a very interesting set of questions. I will start with the UK, and then I will talk about Scotland.

Regarding the UK picture, as Tom Josephs mentioned in his opening statement, there is a sizeable upward revision in our welfare forecast relative to last March of around £16 billion by 2029-30. Some of that—perhaps around half of it—was driven by policy changes, in particular reversals of previously announced measures on the personal independence payment gateway and winter fuel payment and the abolition of the two-child limit.

The other half was what we call forecasting changes. That was a mix of things, including higher uprating due to higher CPI inflation, higher unemployment in the near term and higher disability benefit case loads and awards. The last of those gets to the big-picture point in what we have seen in our welfare forecasts. This applies to Scotland in recent years, too. People can sometimes overplay what has been going on in welfare, but it is important to remember—putting pensioner spending to one side for a moment, given that it has different drivers—that working-age welfare spending as a share of GDP has been not totally flat but fairly flat over recent years, perhaps just rising a little bit at times, with some temporary spikes around Covid. Spending has been much more heavily skewed towards health and disability-related spending and away from other working-age spending. More has been going on unemployment-related, child-related and housing-related spending—that sort of thing.

That is particularly relevant to Scotland. There is quite a large health bit within universal credit, but the disability part is devolved via the adult disability payment. Noting the slightly different structures of the adult disability payment and PIP in England and Wales, in recent years our forecasts for PIP have included a very strong increase in new claims, although that has started to ease a bit in the latest forecast, as is consistent with our judgment that it is partly cost of living pressures, as well as disability prevalence, that have been driving that, particularly since 2022. Some of that might be starting to ease off a bit.

I would also mention people leaving those two benefits in England and Wales and in Scotland. There is huge uncertainty about the picture for the benefits, both in Scotland and in England and Wales.

11:45

My understanding of the latest picture, on which the likes of the Resolution Foundation and Audit Scotland have done good work, is that there might be some normalisation with regard to adult disability payment as it beds in, in the sense that it might be coming back towards some of the patterns that we see on PIP. Indeed, in some cases, the rate of new claims and the rate of awards for adult disability payment are now a bit lower than the rates for PIP in England and Wales.

Although concerns have previously been raised about the rate at which people flow off adult disability payment and the rate at which people ask for things such as redetermination, which involves challenging decisions made at reviews, the Resolution Foundation has highlighted that the situation in that regard is converging with the situation with regard to PIP, too, although it is quite early days to assess that in the context of what the policy intent is and how the design of the benefit is delivering that.

It is important that I give a detailed answer, because the disability aspect of the system has been the big driver of changes in our forecasts at UK level in recent years, and although the award rates for the two benefits are quite similar, conscious design decisions have been taken to ensure that the adult disability payment in Scotland operates differently from the UK system. Previous work that we have done in our "Welfare trends report" has highlighted how important some of those very detailed and technical aspects of how the system works with individuals are in driving spending.

As I said, I think that we might be seeing some bedding in and convergence with regard to how adult disability payment compares with PIP from the point of view of on-flows, off-flows and award rates, but it is still quite early days, so I would highlight that as a big risk for the Scottish budget and the funding gap.

Craig Hoy: The most recent available data, which was provided to the committee by the Scottish Fiscal Commission, said that, in the rest of the UK, 16 per cent of people were coming off the benefit at the annual review, whereas, in Scotland, the figure was 2 per cent, which is a very significant gap to close. What are the long-term budgetary risks if Scotland does not manage to perform broadly in line with the rest of the UK?

Laura Gardiner: Those are figures from others—we do not estimate that. Last year, Audit Scotland highlighted that, on current projections, there was a risk to the Scottish budget of a funding gap of around £150 million by the end of the decade as a result of the difference in outcomes between PIP and the adult disability payment. That is Audit Scotland's figure. We do not update that information.

As I said, my understanding of the latest evidence is that some of that gap, particularly in the off-flow rates, which you highlighted, is starting to close. Essentially, that is because the off-flow rate for PIP is coming down, which is one of the reasons why we increased our welfare spending forecast in November. There may be some early signs that it is going in the other direction—in other words, up a bit—for adult disability payment.

Craig Hoy: You said that the number of applicants might be being driven partly by cost of living pressures. Are there people who would have qualified for the benefit before who now feel the need to apply because they need more income? Is that what is happening?

Laura Gardiner: I should say that our understanding of such matters is driven by looking at the UK-wide picture and having a focus on PIP, rather than by looking specifically at Scotland. However, in general, in relation to both PIP and the health-related channel within universal credit, which is common across the UK, we have repeatedly highlighted that it is a mix of labour market and economic factors, health-related factors—in other words, the prevalence and severity of disability and health problems within the population—and the structure and operation of the benefits themselves that drives claim rates, on-flows, off-flows and spending.

The labour market and economic factors, which relate to the point about cost of living pressures, have been driving factors in our understanding of why new claims for PIP have gone up quite rapidly in recent years and in our forecasting assumption that, as cost of living pressures ease over the coming years, there will be a drop-off in the rate of new claims. As we highlighted in the EFO, in recent months we have seen some early evidence of that judgment bearing out.

Although our forecast for welfare spending increased, because people are not flowing off PIP as quickly as we thought they would, we have started to see the rate of new claims easing off. That is consistent with our judgment that some of what has happened over the past two or three years has been driven by cost of living pressures, and some of those pressures are starting to ease. We will definitely be keeping an eye on those in upcoming forecasts, because they are quite a big driver of what we think can happen to welfare spending.

That underscores the reasons why—this applies in Scotland as well as the rest of the UK—when we produce the spending forecast on the health-related UC side and the disability side, we always need to look at the intersections of people's health, their experience of the economy, their incomes and costs, how they interface with the system and what incentives the system gives them.

Craig Hoy: It strikes me that we are doing a lot of research into behavioural change around tax. Is there more that we could be doing in relation to behavioural change around the benefits system and whether it incentivises, encourages or discourages people to go into work?

Laura Gardiner: My background is as a welfare geek, so my answer to that question is always going to be yes. I would be delighted about more research in that area. We produce a "Welfare trends report" once every couple of years, so we work quite closely with the research community in the welfare space around the UK to try to influence some of the things that people are looking at.

Some good research is out there on that question already, and it has driven some of our judgments in recent years. We have drawn quite a bit on research by the Institute for Fiscal Studies and others that shows that changes to the welfare system have a bit of a whack-a-mole effect, in that clamping down, restricting access or reducing generosity in one part of the system often just drives people towards another part of it. For example, there is good evidence that eligibility restrictions on single parent-related benefits in the 2010s drove up claims, case loads and award rates in the parts of the system that deal with unemployment and disability. We have seen some evidence that increases in sanctioning and tightening the conditionality regime in the unemployment part of the system has been a factor in driving health and disability claims in recent years.

That relates to one aspect of your question on behaviour. There are loads of other aspects of how people—particularly those on lower incomes and with constrained resources—interact with and respond to the incentives that the welfare system gives them.

Therefore, I think that my answer would be yes. I would always love there to be more research in that area, although there is some good stuff out there and we have been able to draw on it in our forecasts and analysis in recent years.

Craig Hoy: One of the dominant themes running through the Scottish budget and the UK budget is the on-going issue of the cost of living. In paragraph 1.9 in the "Economic and fiscal outlook", you say:

> "Growth in real household disposable income per person is projected to fall from 3 per cent in 2024-25 to around ¼ per cent a year over the forecast".

Given that many households still feel that there is more month than money, is that a reality check to the effect that people are not going to feel better off for the foreseeable future?

Rosie Colthorpe: That is right about our forecast. Behind that is the fact that real wage growth is slowing. Tom Josephs talked about normal earnings. Our forecast is that that growth will slow down and rising taxes will bear on real household disposable income. We thought that the policies in this budget would lower real household disposable income per person to growth of around a quarter of a per cent a year. That is due to rising taxes—primarily the threshold freeze, which is the big one. In the near term, that will be slightly offset by some of the welfare increases that we have been talking about.

To put that quarter of a per cent growth in context, which is forecast to happen from 2026-27 onwards, it compares with growth of an average of 1 per cent over the past decade, which has generally been seen as quite a weak period for real household disposable income growth. In our forecast, that will be even weaker, so yes, it is quite a dismal forecast for real household incomes.

Craig Hoy: It is very gloomy. In paragraph 1.4, you say that you

"expect quarterly growth to pick up only gradually in the near term as geopolitical uncertainty persists and domestic business and consumer confidence remains subdued, including in anticipation of further tax rises."

Do you have any assessment as to what the scale of those potential tax rises would be and upon whom they might fall?

Rosie Colthorpe: That was largely referring to the point that, in 2025, GDP growth was quite strong in the first quarter, which was due to some temporary effects—there was maybe some front loading before tariffs came in and before changes in stamp duty thresholds—but it has been very weak since then. There was a bit of payback for that front loading and also a general slowdown and weakness in sentiment. That statement was largely referring to some of that weakness in sentiment, which is leading to weaker GDP growth in anticipation of the budget and because of the speculation around tax rises.

Actually, since we produced our forecast, GDP growth was 0.1 per cent in Q3, which was even lower than our forecast. That suggests that there were several factors weighing on GDP growth at the back end of last year.

Craig Hoy: Thank you for coming north to cheer us all up.

The Convener: John Mason is next.

John Mason: Thanks, convener. I thank the witnesses for their input so far.

The Convener: Cheer up a bit—you have not even asked your questions yet.

John Mason: I will build on some of the things that have been talked about already. The figures on debt jumped out at me, and you have already talked about that, Mr Josephs. How did we get into the position in which, if my understanding is correct, we now have twice the level of debt of some other advanced economies? You explained how we had Covid and the debt went up, and we had the banking crisis and the debt went up, but those things were worldwide and affected other countries as well.

Tom Josephs: That is right. There is a combination of factors. One is that the particular set of shocks that the global economy has experienced hit the UK relatively harder than it hit many other countries. In relation to the financial crisis, for example, the UK has a very large financial sector, so the impact of that crisis on the UK was larger than in many other countries. Also, the cost to the Government of resolving the financial crisis was much higher than in many other countries. That pushed up debt relatively more than in many other countries.

One of the shocks that I did not mention but which has clearly had an impact on the economy over this period was Brexit. Clearly, that affected only the UK and not other countries. Also, the impact of Covid on the UK economy was larger than in some other countries, and the Government introduced a relatively large package of support. That was not completely out of line with the support in many other countries but, again, it pushed up the debt level by more than happened in other countries.

As I said, between those shocks, successive Governments have basically kept debt relatively stable rather than bringing it down significantly. Some other countries have been more successful in bringing down debt a bit in those periods. Not many countries have done that but, among the group of advanced economies, it is quite a large number of countries. Some countries have been more successful in reducing debt in the periods between shocks.

John Mason: That is helpful. Obviously, we are also thinking ahead. If we hit another pandemic or have some other kind of crisis or a war, all of which are possible, can we handle that? We would then be talking about debt going up to 120 per cent of GDP or something. Should we be worried about that? It would obviously affect the Scottish budget as well.

Tom Josephs: One reason why we flag the risks about the elevated level of debt is that, potentially, it means that, when the next shock comes along, Government has less fiscal space to deal with it. I am certainly not saying that that will happen when the next shock hits, but each time debt ratchets up, you increase the risk that you have less fiscal space to deal with the next shock.

John Mason: Is there an ideal level of debt, or is that just entirely subjective?

12:00

Tom Josephs: Well, no. A lot of international research has been done on the question whether there is an optimal level of debt or a debt level above which things get unsustainable, and, broadly, the answer is no—it is not as easy as that.

A huge number of factors go into determining the sustainable level of debt in individual countries. It depends a lot on matters such as the wider economy, access to financial markets and the resilience of the political and economic institutions. Generally, the advanced, more stable economies are able to sustain higher levels of debt than lower-income countries with less strong institutions.

In our long-term analysis of fiscal sustainability, which we produce once a year, we project forwards over a 50-year horizon on the basis of current Government policy settings, factoring in the pressures from demographic and climate change and from other long-term trends that we know for sure or think are coming along in the next 50 years. That analysis shows that, in the absence of policy action to change things, debt is on an ever-upward trajectory, which is clearly unsustainable. An upward trajectory of debt over the long term clearly signals that long-term fiscal policy is unsustainable.

John Mason: Linked to the debt is the interest. You have made a few points, especially around gilts. If I understand correctly, the Government is selling shorter-term gilts—maturities are shorter term than in the past—which means that the interest rates have gone up from 2.9 per cent to 4.4 per cent, as I think you say in your outlook document. Could you explain what all that means and what the impact is?

Tom Josephs: All Governments sell debt at a range of maturities—that is, the time period over which a debt needs to be paid back. That varies from relatively short-term debts of up to one year through to some very long-term debt instruments that go out to at least 50 years.

In the past, the UK has had a much longer average maturity of debt than most other advanced economies—it sells a lot more of that longer-term, 10-year-plus debt. A big reason for that is that there has been a big demand for longer-term debt from the UK's defined benefit pension sector. Long-term debt is a very good match for the liabilities of defined benefit pension schemes—indeed, they want to hold those long-term gilts because they match the long-term pension liabilities that they will have to pay out in the future.

Analysis in our last fiscal sustainability report shows that the defined benefit sector has been shrinking in favour of defined contribution pension schemes, which hold a lot less Government debt and a lot less long-term Government debt. It is a long story but, essentially, the headline is that the demand for long-term Government debt from the UK pension sector has declined quite significantly and that we expect it to continue to do so in the future. In response to that situation and some other factors, the Government has therefore been issuing much more short-term debt than long-term debt.

John Mason: Is it then a response to demand in the market rather than a Government choice?

Tom Josephs: Yes, it is largely a response to demand in the market.

The implications of that are, first, that the Government needs to roll over its debt more often. When those kinds of short-term instruments come up to maturity, the Government essentially needs to refinance them, which means that it is more exposed to short-term volatility in interest rates. If the interest rate rises, the Government will have to refinance more debt at that higher interest rate. Of course, the opposite could happen; interest rates could fall and the Government would benefit from refinancing at the lower rate. Essentially, though, the move to the short term increases the risk of the Government being exposed to interest rate volatility.

John Mason: And did I pick up that, in the long term, interest rates are expected to rise again?

Tom Josephs: Rosie might well correct me, but the current shape of the gilt rate curve is that it will fall over time, reflecting the expectation that the interest rate set by the Bank of England is going to fall in the short term. There is a rise in the longer term, reflecting wider factors such as interest rate and inflation expectations and issues around the demand for gilts.

John Mason: You have mentioned inflation, which is the next thing that I was going to ask about. Inflation might go up or down over the next few years, but you are kind of confident—or you expect, I should say—that in the longer term it will drop back a bit. How confident are you? I presume that inflation and earnings are linked. Are we quite confident that they are going to keep coming down? After all, I think that you are saying that inflation has been higher over the past year or two than we were perhaps expecting.

Tom Josephs: Rosie, do you want to talk about that?

Rosie Colthorpe: John Mason is right—inflation has been a bit stickier than we had been expecting and in our most recent forecast we increased it a little bit in 2025-26 to reflect slightly stronger domestic wage growth feeding into it, as well as higher food prices. I should say that, since our forecast, the latest reading on inflation has actually been a bit lower, with those factors coming in a little bit lower than we had expected. That might suggest that it is coming down more quickly.

We think that inflation will return to the 2 per cent target in 2027, because of a loosening in the labour market. With unemployment staying a bit higher and vacancies falling, you would expect workers to have a bit less bargaining power over their wages. Therefore, it should start to drop off; if nominal and real wages start to come down, that should feed into slightly lower inflation.

We also think that it will return to the 2 per cent target because we project the output gap to close by the end of the forecast and potential output to come into line with GDP growth. If there is no spare or excess capacity in the economy, that typically means that inflation is around target—so, the Bank of England gets it back to 2 per cent.

I should also add that, in the budget, there was a policy impact on inflation. We therefore think that, next year, the total impact of policies on the budget will take around 0.3 percentage points off inflation in 2026. That will help bring it down a bit, although there is a little bit of upward pressure next year as fuel duty rises.

John Mason: Thanks. Finally, the UK Government is committing to just one fiscal event a year, but you are still going to do two forecasts. Is that how it will work?

Tom Josephs: That is correct. The chancellor has announced that the spring forecast, which will be on 3 March, will be a full forecast from us, and we will produce a full five-year forecast covering everything that we currently cover—that is, the economy and the public finances. However, we will not make a formal assessment of whether the Government is meeting the fiscal rules; we will do that only at the time of the autumn budget.

The chancellor has also said that she will not announce policy alongside the spring forecast, except, I think, in exceptional circumstances—or language similar to that. Such an approach is quite common in lots of countries, with one major fiscal policy-setting event a year and more of a preliminary forecast that, if you like, sets the context, provides an update on the position of the economy and the public finances and allows the Government, Parliament and the public to start thinking about the wider context of the public finances and policy options ahead of the main budget event.

John Mason: So, it is a bit of a technicality. It is not going to have any real practical impact.

Tom Josephs: The main practical impact will be that there will not be a policy announcement, as the chancellor said—

John Mason: So the focus will be on the autumn.

Tom Josephs: —other than in exceptional circumstances.

In the UK, over many years, there have, essentially, been two major UK fiscal policy-setting events per year, and the chancellor has said that her intention is to move to only one. That will be the main practical impact.

The Convener: When will the UK national debt top £3 trillion? We are about 99 per cent of the way there, I understand.

Tom Josephs: There are various measures of public debt; in our forecast, all of those remain below 100 per cent of GDP over the forecast period, but they are very close to it. As we have said, there are a lot of risks around those forecasts. There is a risk that debt will rise more quickly and top that number.

There is nothing particularly magical about that number—

The Convener: However, the media will jump on it.

Tom Josephs: From the point of view of economic and public finance analysis, there is nothing particularly special about debt being 100 per cent of GDP. However, in our forecast, as I have said, it is already at a very elevated level in the UK compared with the past—in peacetime—and is high compared with many other countries around the world. It therefore represents a significant risk.

Michael Marra: Good afternoon. Thank you for being with us today. You might have noticed that the Parliament is controlling its costs by keeping the temperature in this room dramatically low. [*Laughter*.] It is absolutely freezing—again—this morning.

You will know that there is to be a Scottish budget announcement this afternoon, and that there are lots of demands on and concerns about the state of public services in Scotland, in common with the rest of the UK. Obviously, further increased funding for the Scottish Government, to allow it to do other things, would help. If, for instance, the UK Chancellor of the Exchequer decided to spend an additional £50 billion on public services, what would be the impact on the UK finances?

Tom Josephs: The answer to that question would depend on whether such an increase in public spending was funded.

Michael Marra: Assume that it was unfunded.

Tom Josephs: Obviously, an additional £50 billion a year on public spending without any increase in taxation would translate to an increase of £50 billion in borrowing, which would be very significant.

As I pointed out in my opening statement, it is interesting that the UK deficit—UK borrowing—has been relatively elevated since Covid. During Covid, borrowing shot up very high. It came down immediately after Covid but has remained at around 5 per cent of GDP since then, despite the expectations in our forecasts—which were based on Government plans through successive budgets since Covid—that borrowing would fall from around 5 per cent of GDP to around 2 per cent. That has not actually happened, which is the result of subsequent economic shocks that have come along after Covid—most notably, the energy price shock—and decisions by successive Governments not to consolidate the public finances as quickly as was previously planned.

What you are talking about would involve repeating that approach, which would increase the risk around the position of the public finances in the UK, lead to even higher debt than is in our current projections and increase the debt interest cost that the convener talked about at the start of the meeting.

Michael Marra: What if that was £90 billion?

Tom Josephs: That would represent an even bigger risk.

The Convener: Michael Marra wants to be President of Argentina. [*Laughter*.]

12:15

Laura Gardiner: The Government has shown a great deal of commitment to its fiscal rules. If we are focusing mainly on public services, as you mentioned in your question, that assumption of an unfunded increase translates directly to the margin against the meeting of the binding fiscal rule, which is to have a current surplus in 2029-30. As you know, the margin in the latest forecast is £22 billion. The numbers that you are talking about are well beyond that margin and would result in the Government's not meeting its fiscal rules.

The question would then be how those who lend to the UK Government would respond to that. This is a what-if game, so I have no idea of the answer to that. As we have said previously, the current fiscal rules are comparatively loose compared with previous iterations, although they are tightening in the sense that the target year is coming forward—which is a commendable aspect, particularly given that the target year falls within a period in which there are detailed plans for current as well as capital spending. However, your what-if scenario also raises the question of whether that might completely erode whatever fiscal space the Government has and cause an adverse reaction in the gilt markets in people's willingness to lend in respect of something that would push the Government's fiscal position well beyond its stated fiscal commitments.

Michael Marra: We could assume that that would happen. We have had an experiment under the previous UK Government whereby £45 billion pounds of fiscal expansion had no funding attached. There was a reaction in the markets over that period, it is fair to say, and there were consequences as a result. Was that not the case?

Laura Gardiner: These things are highly context specific. It would absolutely depend on the way that the Government described it, what it said about its fiscal intentions, whether it was changing its approach and the circumstances that had driven such a change.

We are very much in the hypothetical space, now, and I am absolutely not advocating for any approach. Let us give an example of when public spending rose massively and unexpectedly very quickly, in recent years—the Covid pandemic. There was total consensus among different political parties, commentators and market participants that that was an emergency that warranted direct public spending support for households and the economy. The fiscal rules were put to one side—as was everything else in that context.

There are totally different reasons why you might massively increase day-to-day spending and, as a result, totally different ways in which you could contextualise that against your fiscal strategy, particularly when it comes to the fiscal rules—and the markets would absolutely react with the context in mind. It could play out in a range of different ways.

Your comments point to 2022 as an example of circumstances not being as I described those in Covid, and we have seen evidence of how markets can react. It is not clear, therefore, that we have acres of fiscal space in the UK to delve into in any context.

Michael Marra: Are those kinds of demands viable or reasonable, then?

Laura Gardiner: Obviously, there is an option of funding any changes in public spending via changes in taxation. We have talked about taxation a little. As I said, the ratio of tax to GDP is forecast to reach record highs in the UK; however, there are countries that have sustained higher ratios, and any change of that nature would be consistent with the Government's fiscal rules. The public services that you want and the level of taxation that you are willing to have to fund them is just a policy choice. If you move from the unfunded space to the funded space, it is much more a policy question.

Michael Marra: The challenge is that, since the current UK Government was elected in 2024, the Scottish Government has demanded an additional £95 billion of expenditure and has opposed £45 billion-worth of revenue raisers, which is a fiscal shift of £140 billion in Scottish Government demands on the UK Exchequer. What it is asking for is unfunded. What would be the consequences for the UK economy of a fiscal expansion of £140 billion?

Laura Gardiner: We have done £50 billion, £90 billion and now £140 billion.

Michael Marra: I agree that that is ridiculous, and it is at Argentina levels, but the Scottish Government is making those demands, so what would the consequences be?

Tom Josephs: It is not really possible for us to comment on that. It is clear in our remit that we are not to comment on political policy positions and that we are tasked only with assessing the consequences of announced UK Government policies. We are careful to avoid commenting on alternative policy positions of the sort that you are setting out.

Michael Marra: I am trying to explore the policy space, as you have set out, and the Scottish Government has made a proposition. You are talking about fiscal headroom and what the impact of that would be, so the OBR must have a view of what might happen and what the impact would be if there were to be a sudden expansion in the Government funding of public services without any commensurate increase in taxation. That is a reasonable question.

Tom Josephs: Laura Gardiner and I have both spoken clearly about the potential risks associated with increases in borrowing, but it is just not right for us to comment on specific alternative policy proposals. Our legislation clearly says that that is not something we should do.

Michael Marra: The Scottish Government makes those demands publicly, and they are clearly political demands. The permanent secretary of the Scottish Government wrote to me saying:

> "In making representations at UK fiscal events it is not for the Scottish Government to undertake costing of UK Government reserved policies, nor to identify or quantify alternative revenue-raising options."

Apparently, it is not the job of the head of the Government civil service to make those demands. It is not on you to cost them. I get that you are responsible for costing UK Government policies rather than commenting on the politics of what is happening here, but there is a missing space when one constituent part of the UK is making unfunded demands of the Government and no one is actually costing that out. Are the politics of that not a problem for the operation of the fiscal framework?

Tom Josephs: I have not seen that, so it would not be right for me to comment on it.

Michael Marra: Okay. You will be glad to hear that I am moving on to a different area—I am sure that colleagues will be glad, too.

There are issues with productivity and it is fair to say that the picture that you paint is quite a gloomy one, and not only because of the downgrade that you have made. The picture is of significant exogenous factors impacting the global environment and it seems to me that you can see little prospect of an uptick in productivity. Is that a fair assessment of what you have set out?

Tom Josephs: Do you want to answer that, Rosie?

Rosie Colthorpe: Sure.

As you said, we have downgraded our medium-term assumption for productivity growth from 1.3 per cent to 1 per cent. To put that in context, the average in the decade before the financial crisis was just over 2 per cent and the average since then has been around 0.5 per cent. You could see it as being relatively optimistic if we say that productivity growth is going to pick up towards 1 per cent, because that is double the rate that we have seen in recent years, or you could see that as being relatively pessimistic because it is less than half the rate from before the financial crisis.

One reason why we think that it will actually pick up from the recent lows of around half a percent is that, as we touched on earlier in our discussion of debt, the UK has experienced quite a lot of shocks that have impacted productivity, most recently the European energy crisis and the impact of Covid. Those shocks had an impact on UK productivity, so, as those fade, we should see the productivity in our central forecast picking up a little bit and moving back towards the averages from before the financial crisis, although not all the way towards them.

Our forecast also reflects the growing impact of artificial intelligence, which we see as the next general-purpose technology. Before the financial crisis, we had the revolution in information and communications technology, which contributed a lot to productivity growth, and we think that AI will be the next of those revolutions and that its impact will pick up a bit over our forecast.

The 0.2 per cent that we have for growth in our five-year horizon is quite a lot less than the information and communications technologies revolution did before the financial crisis, and we see that picking up a bit during the rest of the decade. There is a lot of uncertainty around that. External estimates of the impact of AI on the UK and advanced economies range from something like 0.1 per cent on the level to about 3 per cent on the growth rates. We have therefore gone for something that is broadly in the middle and that is not too optimistic but is also not at the pessimistic end because there is a lot of uncertainty around it.

I should also say that there is a lot of uncertainty around the central forecast for productivity. It is a difficult judgment to make because it depends upon these big waves of technology that can be hard to predict.

In our EFO and in the productivity paper that we published, we did some scenarios, one of which shows the downside if productivity growth remains at around 0.5 per cent, which follows the average of the past decade or so. That would obviously lead to much lower growth in the UK and put us in a much worse fiscal position. An upside scenario could be that productivity growth returns to about 1.5 per cent, which is more like halfway between the pre and post-financial crisis decades, so it could be seen as an average of those two periods. That might be down to AI having more of an impact and more of the recent weakness being a result of the shocks that have hit the economy rather than reflecting the underlying structural factors that we expect to continue.

There is quite a wide range of impacts to consider, but we have gone for something in the middle for our central forecast.

Michael Marra: You are leaning quite heavily on technological waves rather than a total productivity measurement. The Scottish Fiscal Commission has been talking more about the latter rather than just waiting for technology moments to arrive. It sounds as though you are saying that, at the policy level, we are just hostages to fortune. The other issues that you identify include the ageing population, which is more acute in Scotland. I am trying to explore what we, as a set of institutions in Scotland, might do to change our productivity pathway, but the message that I am getting from your report is that, rather than making a policy level adjustment, we will just have to wait and see if a major technology comes along and changes our direction.

Rosie Colthorpe: It is definitely right that these waves of technology are important drivers. As we show in our paper, there is slower productivity growth across advanced economies, so it is not just a UK-specific issue. As we have just talked about, the OBR is not here to comment on specific policy appraisals or alternative policies, but if we look back at the past few years, there are examples of Government policies that have increased productivity growth that we have incorporated in our forecasts.

I will give a couple of examples, one of which is trade. On the downside, Brexit has impacted productivity. On the upside, the UK has signed a number of trade deals with different trading partners since Brexit that we expect to uplift productivity, in the long term, by around 0.25 of a percentage point, in total. That is a positive but, unfortunately, it is outweighed by the Brexit negative, which is around 4 per cent in the long term. We have also increased our productivity through the impact of the UK Government's planning reforms that are allowing the construction sector to make more productive use of the land that has been released for development.

On the capital deepening side, the big increase in public investment from the Government last November meant an increase in productivity of around 0.1 per cent to 0.2 per cent at our forecast horizon. We have also seen increases or decreases from policies that impact business investment, such as corporation tax and the super deduction, which affects businesses' cost of capital and their incentive to invest.

We can therefore draw upon lots of examples of Government policies in the past five years that have impacted on the rate of productivity growth in our forecast, so there are ways that we can do that in the way that we forecast.

Liz Smith: As some colleagues have said, the analysis that you have given us this morning is a bit depressing, but do you think that there is a real commitment in the UK Government to reform the tax system in particular, because it obviously has complexities that other countries do not have? Is that commitment there?

Tom Josephs: What we have seen in the past two budgets from the UK Government is a large set of tax changes. We cannot speak for the Government on its objectives, but it has clearly been reflecting on a wide number of them. Some are fiscal, in that it has sought to increase revenue from taxation in order to increase public spending and therefore meet its fiscal rules.

Liz Smith: At the time of the budget, there was a lot of commentary not just about that but about whether reforms to the tax system could help to unlock some of the issues in the UK economy. I am not asking you to comment on whether that is the right or the wrong thing to do, but is there a commitment in the UK Government to do that?

12:30

Tom Josephs: That is really a question for the UK Government, so you would need to ask it. Our role is to assess the cost and impact of the policies that the UK Government chooses to announce—why it chooses to announce those is a matter for it. However, it is certainly the case that it has introduced a large number of changes to taxation. Some have in mind a fiscal objective in order to pay for increases in public spending and others have in mind more specific policy objectives, too. One example in the recent budget is the introduction of taxation on electric vehicles, which the Government would say has a fiscal objective as well as a number of other policy objectives.

Liz Smith: Just to be clear, the OBR is not being asked by the UK Government to do any analysis of possible changes to the structure of taxation. Is that correct?

Tom Josephs: We assess the impact of the tax policy changes that the Government chooses to announce.

Liz Smith: The current ones.

Tom Josephs: Yes. We do not do any other work for the Government on taxation policy.

Liz Smith: Thank you.

The Convener: I have a couple more questions on issues that we have not touched on. One is about the increase in tax on property income and savings income by 2 percentage points at the basic, higher and additional rates from April next year. The budget says that the UK Government intends to

"engage with the devolved governments of Scotland and Wales to provide them with the ability to set property income rates in line with their current income tax powers in their fiscal frameworks."

In its reaction blog on the UK budget, the Scottish Parliament information centre said:

"Once the Scottish Parliament has the powers to set income tax rates to property, it will presumably face a choice between at least matching the rates for England, or accepting a block grant adjustment which will reduce funding for the Scottish Budget."

What are the implications of that policy for savers, those letting out properties and tenants?

Laura Gardiner: I will focus on the property side, because that has the most direct implications for the Scottish Government, being part of the devolved set of taxes, but the implications are similar on the savings side. I talked earlier about the behavioural effects of tax policies. At UK level, when we looked at the policy in this case, our considerations included impacts on the property market. In our forecast, the yield from the increase in taxation was slightly offset by a negative impact of the tax on house prices, which more than offset a slight upward effect on rents, in terms of the relative tax.

The Convener: The implication is that the policy will reduce the number of flats available for rent. Is that correct?

Laura Gardiner: That is true, particularly over the long term. In recent years, our economic and fiscal outlooks have included a specific section on the long-term implications of policy. In that context, we highlighted that this policy is set in the context of various changes to the tax treatment of landlords and property income over the past decade, which have reduced returns to private landlords, and that you might expect that to reduce the supply of rental properties and therefore increase rents over the long run. We flagged that as a risk from the policy, in the context of a number of policy changes in the landlord and rental property space.

The Convener: If the Scottish Government decides not to copy the UK Government, what will be the implications of a block grant adjustment?

Laura Gardiner: I am afraid that I do not have the specific figures to hand, but I think that, in essence, it is a straight choice between that and a proportionate reduction in the block grant adjustment relative to the yield at the UK level, which we estimated at around £0.5 billion. Others will know better than me how those things translate. I am sorry that I do not have figure to hand, but the revenue at the UK level from the property aspect, which is the most relevant part in the Scottish budget context, is £0.5 billion, and that translates through in the usual way.

At the Scotland level, it is a direct choice between at least matching the UK Government rates of tax on property income when the powers have been put in place to do so, which I understand is something that the Governments are working on together, and, as I think other witnesses to this committee have mentioned, considering the implications of those changes for the Scottish rental market in the context of other changes to the treatment of Scottish landlords over the past decade, particularly the relatively high rates of property transaction tax.

The Convener: The impact of that could be tens of millions of pounds.

Laura Gardiner: That sounds about right to me, taking account of the usual proportions of around 10 per cent.

The Convener: In terms of capital, you say in paragraph 2.49 of your report that a

"relatively high cost of capital and a weak rate of return together generate a modest decline in investment as a share of GDP over the forecast".

You go on to say:

"the cost of capital has risen over recent years ... and the real return on capital is at a historically low level. Investment intentions and business confidence also remain subdued."

What do you perceive to be the impact on growth of that?

Rosie Colthorpe: You are right—over the past few years, we have seen the real rate of return for businesses trend down and reach relatively low levels, although I should say that recent Office for National Statistics revisions have made the picture look a little bit less bad than it did maybe a year ago, so it looks like a less bad position for businesses.

The Convener: It is a little bit less bad but still bad.

Rosie Colthorpe: Yes, it is still bad but a little bit less bad than it was.

Over our forecast, we think that businesses will try to rebuild some of their rate of return and their profits, so the profit share of GDP should rise a little bit and the rate of return should go up a bit as well.

Another revision from the ONS was to business investment, which pushed up the level of that as a share of GDP compared with what we previously thought, so the picture for business investment looked a little bit better.

We think that the relatively weak rates of return, although those are increasing a little bit, and the high cost of capital—we have talked quite a lot about interest rates, which will feed through to businesses' borrowing costs as well—will together weigh on business investment, so we have business investment as a share of GDP trending down a little bit over our forecast. It is broadly flat in a wider context but is going down a little bit. That will feed into the capital stock and therefore our capital deepening forecast. If business investment was going up as a share of GDP, that would build up the capital stock and contribute to productivity growth. As it is sort of flat and slightly falling as a share of GDP, that part of our productivity forecast is a little bit worse.

The Convener: You are talking about a significant boost to capital in the current financial year, but that will reduce such that, by 2029-30, it will be lower than it was in 2023-24. My concern about that is that you will get inflationary impacts—you do not have a 15 or 16 per cent increase in capacity, but you have all this additional capital, so prices go up and then, suddenly, the share of capital declines, relatively speaking, and you are stuck with high prices. Is that a potential impact?

Rosie Colthorpe: We still think that deepening capital will contribute to growth over the next few years—

The Convener: Clearly, it will contribute—it would be a worry if it did not—but it is about the level of contribution and impact on growth.

Rosie Colthorpe: It is very slightly lower than we had in our previous forecast, but they both still round to about 0.3 per cent a year over the forecast.

If you think about the business capital stock of the UK economy—I cannot remember it off the top of my head, but it is very large—the annual flows are quite small compared with the overall stock. You must have big changes in the flows of business investment to generate the big changes in the capital stock, so even the adjustment to business investment in our forecast does not have a hugely significant impact on capital deepening and productivity growth.

The Convener: Okay. Lastly, near the bottom of page 29 of your report, well below chart A, it says:

"UK and global productivity growth between the early 1990s and mid-2000s was likely boosted by rapid increases in trade as a share of GDP. UK trade intensity has stagnated since 2008, and we expect it to fall in the coming years due to the recent resurgence in global protectionism on top of the enduring effects of Brexit. This is set to weigh on productivity growth".

The report goes on to say, in the final paragraph of page 46:

"Weak growth over the medium term reflects a more restrictive global trade environment as well as the ongoing impact of Brexit, which we continue to expect to reduce the overall trade intensity of the UK economy by 15 per cent in the long term."

What are the implications of that on the UK finances to the end of the forecast period?

Rosie Colthorpe: I do not have a specific number for the exact impact of that on the UK Government finances, but I will talk a little bit about the different factors and trade and how that impacts productivity.

The Convener: Sorry, but a 15 per cent reduction in the overall trade intensity of the UK economy is very significant.

Rosie Colthorpe: Yes. That is largely from Brexit. That would translate into a 4 per cent reduction in the level of productivity of the UK economy. We would expect that to come in around 10 to 15 years after the UK left the European Union—by 2030 to 2035. That is still weighing on productivity growth in the UK economy and therefore real GDP growth and the public finances over our forecast period—and even slightly beyond it as well.

As I mentioned earlier, there is a small offset to that from the trade deals that the UK has signed to date—

The Convener: Four per cent, you said—

Rosie Colthorpe: Yes, a small offset—

The Convener: Four per cent versus quarter of a per cent.

Rosie Colthorpe: Yes. You also mentioned the impact of global protectionism.

The Convener: Indeed.

Rosie Colthorpe: We have seen US tariff rates rise significantly since the end of 2024. As at September, which is when the International Monetary Fund produced its world economic outlook, on which we condition our forecast, rates on the UK had increased by around 8 percentage points. That is a significant increase in tariffs but slightly lower than the increase in tariffs on some of the other trading partners of the US, so the UK was in a slightly better position relative to them, although we are in a worse position than we were at the end of 2024.

We think that that impact on productivity of that increase in US tariffs on the UK and the wider impact on slowing global trade from US protectionism is around -0.1 per cent, so, again, it is relatively small compared with Brexit, but it is still a drag on UK productivity growth over the next five years.

The Convener: Thank you very much for your evidence this morning. It has been very helpful to the committee. Just before we wind up, Tom, are there any further comments that you want to make? Is there anything that we should have touched on but did not that you want to emphasise?

Tom Josephs: I do not think that I have anything else to add.

The Convener: With that, I call an end to this meeting. Thank you very much, everyone, for your contributions.

Meeting closed at 12:41.

This is a draft *Official Report* and is subject to correction between publication and archiving, which will take place no later than 35 working days after the date of the meeting. The most up-to-date version is available here:
https://www.parliament.scot/chamber-and-committees/official-report

Members and other meeting participants who wish to suggest corrections to their contributions should contact the Official Report.

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

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

The deadline for corrections to this edition is:

Friday 13 February 2026

Published in Edinburgh by the Scottish Parliamentary Corporate Body, the Scottish Parliament, Edinburgh, EH99 1SP

The Scottish Parliament
Pàrlamaid na h-Alba