OFFICIAL REPORT
AITHISG OIFIGEIL

DRAFT

Finance and Public Administration Committee

Tuesday 27 January 2026

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Pàrlamaid na h-Alba

Session 6

Tuesday 27 January 2026

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FINANCE AND PUBLIC ADMINISTRATION COMMITTEE
4th 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:

Jennie Barugh (Scottish Government)
John Ireland (Scottish Fiscal Commission)
Merlin Kemp (Scottish Government)
Ellen Leaver (Scottish Government)
Richard McCallum (Scottish Government)
Ivan McKee (Minister for Public Finance)
Lucy O'Carroll (Scottish Government)
Shona Robison (Cabinet Secretary for Finance and Local Government)
Professor Graeme Roy (Scottish Fiscal Commission)
Susie Warden (Scottish Fiscal Commission)

CLERK TO THE COMMITTEE

Joanne McNaughton

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament

Finance and Public Administration Committee

Tuesday 27 January 2026

[The Convener opened the meeting at 08:30]

Budget Scrutiny 2026-27

The Convener (Kenneth Gibson): Good morning, and welcome to the fourth meeting in 2026 of the Finance and Public Administration Committee. The first item on our agenda is an evidence session as part of the committee's scrutiny of the Scottish budget for 2026-27. We are joined by Shona Robison, the Cabinet Secretary for Finance and Local Government, who is accompanied by the following Scottish Government officials: Jennie Barugh, the director of exchequer strategy; Richard McCallum, the director of public spending; Lucy O'Carroll, the director of tax; and Ellen Leaver, the director for local government. I welcome our witnesses to the meeting.

Before we move to questions, I invite the cabinet secretary to make a short opening statement.

The Cabinet Secretary for Finance and Local Government (Shona Robison): Good morning. I welcome the opportunity to discuss the 2026-27 budget and its associated publications with the committee. I thank the committee and its clerks for the important pre-budget scrutiny that was carried out, and I welcome the opportunity to discuss the draft budget in more detail.

This year, the Government published an unprecedented volume of fiscal information, including not just the draft budget but the Scottish spending review, the infrastructure delivery pipeline and the draft infrastructure strategy, alongside more than 20 additional detailed supporting publications.

On 19 January, we published the strategic integrated impact assessment, which brings all the individual assessments together in a single coherent document. That allows us to offer a clearer view on the strategic and cumulative impacts of the decisions that have been taken in the budget. My hope is that that integrated approach will strengthen the transparency of our actions and, in turn, support more effective parliamentary scrutiny.

The approach marks a clear shift in how we set out future spending plans. It is the first time since 2011 that multiyear resource and capital spending plans have been presented together alongside the budget. The aim is to give the Parliament, stakeholders and the public a clearer and more stable view of the outlook for public spending. This year, we have also focused on producing a coherent set of fiscal publications with clearer alignment between the budget, the spending review and long-term infrastructure planning. I hope that that more integrated approach has assisted the committee in its scrutiny.

The budget is intended to support people and families across Scotland through funding for our social contract, including continuing to provide free prescriptions for all, maintaining the abolition of peak rail fares and ensuring that Scottish students pay no tuition fees; the introduction of additional measures that are designed to mitigate on-going cost of living pressures; and support for actions that encourage children's participation in sport.

In relation to the other publications, the spending review sets out the Government's medium-term financial plans, which cover resource spending up to 2029 and capital spending up to 2030. That provides organisations with greater certainty to plan ahead. The infrastructure delivery pipeline summarises major planned infrastructure projects and highlights priority investment that is intended to support long-term resilience and growth, including in areas such as housing. The draft infrastructure strategy sets out long-term priorities for infrastructure investment and describes how that investment supports wider economic, environmental and societal objectives, thereby aligning capital planning with the Government's broader strategic aims.

Those additional publications provide a better platform for the committee to carry out scrutiny, and they are anchored in the Government's four central priorities. First, on eradicating child poverty, the budget includes a £49 million increase to the tackling child poverty fund and uprates the Scottish child payment to £28.20. Secondly, the budget will grow the economy through changes to non-domestic rates, including changes to the basic, intermediate and higher property rates and a 15 per cent relief over the next three years. We are also investing more than £45 million to drive innovation, enterprise and entrepreneurship. Thirdly, we are tackling the climate emergency by providing more than £5 billion of climate-positive investment in 2026-27. Finally, we are improving our public services by investing record funding of almost £22.5 billion in health and social care and providing a real-terms increase in local government funding compared with the budget for 2025-26.

Underpinning all four priorities is the need for transformation. The Government has been clear that maintaining high-quality public services will require change in how services are delivered, with a focus on prevention, improved outcomes and long-term financial sustainability. With the publishing of portfolio efficiency and transformation plans as part of the spending review, there is further information on how each area contributes to the overall sustainability of the public finances, and we expect the plans to yield savings of £1.5 billion a year by 2028-29 for reinvesting in front-line services.

Convener, thank you again for the opportunity to attend today, and I look forward to discussing the budget and associated fiscal publications in more detail and to supporting the committee in its scrutiny.

The Convener: We had a couple of preliminary goes at this last week, and we also discussed the matter in the chamber last Wednesday, so I think that we have talked about some of this already. In some ways, I feel like Elizabeth Taylor's eighth husband: I know what to do—I just do not know how to make it interesting.

I want to start with an issue that we did not touch on last week—housing. The figures for housing on page 93 of the budget document look very impressive. At this point, I should say that I am going to refer to the autumn budget revision figures wherever possible, because I think that they are the most accurate when it comes to comparing like with like—and I have to say that we do really appreciate the increase in information, although we will touch on that a wee bit more as we go along.

We are seeing a quite substantial increase in the total housing and building standards line from £634 million to £813 million. Below that table, though, we see details of the affordable housing supply programme, which comprises

"Capital, Transfer of Management of Development Funding and Financial Transactions",

That totals some £926 million. I work that out as a 45 per cent increase in housing spend next year. Is that actually the case? Can you give us a wee bit more information about those numbers? I just want to ensure that we are comparing like with like, given that there is no AHSP line anywhere in the tables.

Shona Robison: I can bring in colleagues to talk about the detail, but there is a significant uplift in the funding for the affordable housing supply programme. Of course, it is part of the overall £4.9 billion of investment over the next four years. With housing in particular, it was important to give certainty beyond a one-year figure.

You have pointed towards a significant uplift for this particular year, convener, but it continues over the four years. I should say that £4.1 billion of that is public money, while the other £800 million will be private investment levered in to grow the pot for delivering the target of 110,000 affordable homes by 2032.

I will ask Richard McCallum to confirm that this is FT and capital funding.

The Convener: Just before you come in, Richard, can you tell us where we can compare that £926 million with, say, the 2025-26 ABR figure? If we look at the fourth line of the table on page 93, we see £634.9 million going to £813.8 million, and then there is just a bullet point below that table. I just want to know exactly where the difference is in the year-on-year actual spend.

Richard McCallum (Scottish Government): A combination of the capital resource and financial transaction lines comprises that increase to £925.9 million in 2026-27. Essentially, there is a greater degree of investment of financial transactions in 2026-27 compared with the 2025-26 figures, but we will come back to you on that for full transparency, convener.

The Convener: I do not see that—in the FTs row, there is a dash, as though there were zero financial transactions.

Richard McCallum: That zero is correct. There are additional financial transactions being invested in the housing programme in 2026-27.

The Convener: You are saying that the figure is effectively going from £634.9 million to £926 million. Is that correct?

Richard McCallum: Yes. I will come back on the 2025-26 comparator, to reflect on any further changes as a result of the transfer of the development funding. The total of £926 million is certainly correct, and we will make sure you have clarity on the comparator.

The Convener: It looks as though the housing sector is getting a major boost. We know that, over the next five years, there will be a real-terms reduction in capital and a gross domestic product deflator of around 5 per cent in real terms. Where is that blow going to fall?

I will not go into the infrastructure delivery pipeline in great detail because we will take evidence on it separately, but can you say where there are likely to be significant reductions in capital spend? We asked for that in relation to that pipeline 25 months ago and I feel somewhat underwhelmed by the fact that the pipeline talks about the projects and the money that has been spent but it does not give details of timelines or the resources allocated against the projects that are in annex A and annex B.

Shona Robison: There is a link, which leads you to a table—which I can share with the committee if it would be helpful. It lays out a significant level of detail.

The pipeline is split into two main areas. In one, the final business case for the projects has been approved and the funding is in place. The other is for those where the business case is still in development and therefore that funding will be allocated in future budgets. There is also a third tranche of projects that are not at that stage yet.

The Convener: One of the projects in that tranche is in my constituency. It was put forward in 2004 and, 22 years later, it still has not moved to annex A. How long is that going to take? I know that it is a living document but it is not very inspiring when you look at the timescales—it seems to me that there is a "mañana" approach. Where is the sense of urgency about pinning some of those things down?

Shona Robison: You will appreciate that it is sometimes very slow for some of the projects—given that they are larger projects, some of which are very complex, particularly those in the health space—

The Convener: Some of them are not. The one that I am talking about is not complex at all. It is a road issue and it has been there for 22 years. I have raised the issue in the chamber so many times that I am fed up, but every time I get the same answer about when Government processes are complete. It has been 25 months since the committee first raised the issue of an infrastructure delivery pipeline. When you produce that, we need a lot more detail in the document, rather than links to other places where we have to go searching for further information.

Shona Robison: I will certainly make sure that the committee gets that documentation. It lays out a significant amount of detail. The backdrop of capital declining by 0.3 per cent over the spending review period is challenging. As I have said, with the infrastructure investment pipeline, we have tried to be clear about those projects that are moving forward. We are also trying to be innovative in other funding streams to grow that envelope because relying on the capital departmental expenditure limit alone is restrictive, given the fall-off of capital.

That is why we are looking at revenue finance—in the primary care space and the college estate, for example—to try to grow that pot, because of the very point that you are making about the importance of infrastructure. CDEL is going to decline over the course of the spending review and that is reflected in what can be done by when.

The Convener: As I said last week, I think that the real-terms reduction is going to be deeper because I do not think that the GDP deflator is accurate.

Shona Robison: I have sympathy for you on that point. We know that construction inflation is running higher than GDP. In October 2025, annual construction inflation was at 4.4 per cent, and that builds on all the other increases over the years, especially the post-Covid years.

That impacts on bangs for bucks. Every £1 million that is invested in infrastructure buys significantly less now than it did 10 years ago. Every Government is facing that reality, which is why we are trying to grow the pot by looking at revenue finance.

08:45

The Convener: It is commendable that the Government is increasing funding for critical safety, maintenance and infrastructure on the roads by 6.1 per cent compared with the ABR figure, and funding for ferries by 18 per cent.

However, in the past two years, I have raised the issue of why public-private partnership infrastructure investment appears in the transport section of the budget every year, but not anywhere else. I understood that that was going to be resolved one way or the other so that we could compare spending in different portfolios.

According to the outturn figure, there has been a 42.6 per cent increase in spend on PPP infrastructure investment in transport. Why would that be?

Shona Robison: It must be the case that the projects in question are coming to a head from the point of view of the flow of those repayments. On roads, there are still significant payments to make on the Aberdeen western peripheral route and some of the motorways.

The Convener: It seems as though the payments are being stepped up. Even compared with the ABR figure, we are talking about an increase of around 10 per cent. Why is the PPP expenditure in other portfolio areas not in the budget, as we have asked for it to be for at least the past two years?

Richard McCallum: I will make a couple of points about that. Transport is the largest area where there are such PPP costs. As the cabinet secretary said, the increase that you can see in that budget line will simply be down to the profile of the revenue payments.

In the health portfolio, because the repayments are primarily made by health boards, the PPP cost is part of the core budget that they receive. I appreciate that that means that those amounts are not included in the budget in the same way that they are in transport, but that just reflects the fact that different delivery partners are involved in health. That is why those figures form part of the health boards' numbers.

Shona Robison: If it would be helpful, we could come back to you with more information on the profiling.

The Convener: It makes life easier for you if we can ask a question and get an answer because, that way, we do not end up having to keep asking the same questions year after year. I would have thought that that would make life easier for the Government.

There has been a massive improvement in the layout of the budget with regard to the autumn budget revision figures, but witnesses at last week's meeting, including those from the Scottish Fiscal Commission, expressed frustration about the fact that there is still £606 million that is not set against the ABR. That means that, to an extent, we are in a situation in which we are comparing apples with oranges.

One area in which real concern has been raised is that of local government funding. The Government has made it clear that one of its aims is to tackle the cost of living crisis, but it will not be easy to tackle the cost of living crisis if people get above-inflation council tax rises. I would have thought that that is almost a certainty, given the settlement for local government. I think that the settlements in some areas are pretty robust—most of them seem to be above inflation—but that is not the case with the local government settlement.

The Convention of Scottish Local Authorities has provided a briefing to all members of the committee, which states:

> "this is a very poor settlement which fails to address the dire financial situation of Local Government in Scotland. The 2026-27 Budget provided a small amount of additional, uncommitted revenue funding of £235m and an uplift to the Affordable Housing Supply Programme."

As we have discussed, the affordable housing supply programme is getting a major boost, but there is a real issue when it comes to day-to-day spend.

The briefing goes on to say:

> "In addition to the gap Councils face, the £497.5m gap in 2025-26 in Health and Social Care Partnerships will continue to rise as demand and complexity increases. The additional funding is only 30% of what we demanded for social care alone."

Why is local government the poor relation in what is, in many ways, a good budget?

Shona Robison: I will come on to those points, because there was a lot of detail in there but, first, I point out that all commentators have acknowledged that there is a real-terms increase. There is a difference of opinion on what the real-terms increase is, and I am very happy to set out why we say that it is 2 per cent.

I draw your attention to what the Scottish Parliament information centre has said. As in the past, it has said that, if you compare budget to budget, as we should, because of the in-year transfers, you find a cash and real-terms increase to the overall revenue allocation to local government. All that is set out in table 4.15, which shows that the overall settlement increases by £650.9 million. That is a cash increase of 4.3 per cent, or 2 per cent in real terms.

The reason why it is difficult to compare to the ABR is because of in-year transfers. In 2025-26, we had in-year transfers of £144 million for employer national insurance contributions and £109 million for pay. If you compare the budget to the ABR, the ABR will of course be inflated because of those in-year transfers of resources.

There might well be in-year transfers of resources for 2026-27, but we do not know that yet. That is why we contend that, for local government, because of that flow of funding in-year, some of which can be predicted and some of which cannot—no one predicted the employer national insurance contribution issue—we should compare budget to budget, as SPICe has said should be done. It is important to recognise those two elements of in-year funding on ENICs and pay in 2025-26. SPICe has recognised that.

That is why my contention is that there is a 2 per cent increase in real terms, when we compare this budget to the 2025-26 draft budget.

The Convener: The Institute for Fiscal Studies has reported that the local government and finance portfolio will

> "see reductions averaging 2.1% a year in real-terms",

or £472 million, over the spending review period. How can local authorities bridge that gap? You are suggesting that it doesnae exist. Does that mean that council tax rises will be at inflation or below in the spring?

Shona Robison: The spending review is a separate issue from that of the budget-to-budget comparator. The spending review is flat cash, and the reason for that is to do with the constraints of the spending review itself. However, if, as a comparator, we look back to the previous spending review in 2022, when local government also had a flat cash outlook, we find that the actual funding that was delivered to local government bore no relation to that outlook.

The spending review is for planning purposes, but, in the course of history, the figures in a spending review have never remained at the same level. Given that the UK is heading towards an election in 2029, there is no way that the figures in the UK Government spending review will hold as they are at the moment. I think that local government received about £3 billion more than was in the previous spending review outlook, in which it had flat cash. The reality for local government was much, much higher.

I gave those assurances to COSLA when I wrote to it. I set out that the spending review is for planning purposes, but the local government budget is set budget to budget. It has always been above the spending review outlook, and it is most likely to be again.

The Convener: That is a bit of a wing and a prayer approach. Do you expect councils to tie down council tax increases to around inflation? They have issues with pay pressures and so on, and there are concerns about ring fencing. You have talked about the UK Government's imposition of national insurance contributions, which is another on-going impact. What do you expect from local authorities on council tax, given the Government's commitment to keeping the cost of living down?

Shona Robison: I expect it to be reasonable. I will not put a figure on that. We have, of course, listened to COSLA. Local authorities wanted flexibility on council tax, so we have given them that.

We have increased the general revenue grant by £253 million. I have had a debate with COSLA in which it has criticised the level of social care funding. I could have hypothecated that £253 million for social care, but I would then have been accused of ring fencing money rather than giving local authorities flexibility.

The £253 million is in the general revenue grant, which can be used for social care or any other priorities for local government. Of course, we are supporting social care—the latest figure is £2.3 billion, including funding for the real living wage.

The £750 million of new money for social care that COSLA asked for just did not exist. I was very up front with it in the discussions that we had. That quantum is more than the entire resource consequentials for the spending review for one year. The money just was not there.

Do I accept that there are pressures in health and social care partnerships? Absolutely. We require to address those, and we need to work together to do so. However, I cannot provide money that simply does not exist.

What I have provided is a fair settlement for local government that represents a real-terms increase. There is a debate among commentators about what the level of the real-terms increase is, but everybody has accepted that there is a real-terms increase.

The Convener: Overall resource funding is up by about 1.1 per cent in real terms. I take on board what you are saying. When one looks at the scale of the budget, £750 million would be all of that.

There have been a number of comments on the issue of colleges over the past couple of weeks. I asked you a question about that in the chamber when the draft budget was announced. You said in your statement that there is a £70 million uplift, which is about 10 per cent. If we look at net college resource, which is on the fourth line down on page 61 of the budget document, the autumn budget revision figure is £662.1 million and the budget figure is £721.1 million, which is a difference of £59 million. College capital expenditure goes down by £6.1 million.

I am looking to see where the £70 million is in those figures.

Shona Robison: We have accepted, as I said in the debate last week, that the way that the figures have been set out is perhaps not the most helpful. Jenny Gilruth is writing to the Education, Children and Young People Committee this week to set out the figures in a way that is absolutely clear.

However, let me be absolutely clear that there is £70 million of new money for colleges—£62 million of resource and £8 million of capital. One of the problems has been that the capital has not been disaggregated in relation to infrastructure projects, such as the Dunfermline campus. That is new money, and Colleges Scotland has welcomed it. It has all been confirmed.

On top of that, there is £8 million—through the child poverty moneys—to deliver employability programmes through colleges. Therefore, £78 million of new resource will go to colleges in 2026-27. Through the spending review period, that uplift has continued. We have been clear with colleges, and work is going on now with them. Some of that is about stability funding, but some of it is about transformation. Colleges will be setting out their plans around what that transformation looks like. The funding will allow a period of stability and it will also allow colleges to get on with transformation, which they are keen to do. I am pleased that that has been welcomed.

The Convener: Maybe others will wish to look deeper into that.

One of the Government's priorities is to grow the economy. However, if we look at level 3 figures on page 84 of the document, we see that total enterprise, trade and investment spend is to go down, from £419.6 million to £397.7 million. We see significant reductions in Scottish Enterprise and Highlands and Islands Enterprise funding from the ABR figure, and even from the outturn figure for 2024-25.

How will the Government continue to grow the economy to the level that we want if there are going to be year-on-year reductions in enterprise agency funding? I believe that that issue has been going on for a considerable period of time.

Shona Robison: On enterprise funding, there are some in-year movements, but we have done more to give the agencies more flexibility. Scottish Enterprise set out a programme of transformation that it wanted additional flexibility to deliver, and it has been given that. It is a reasonable budget in the light of our constraints, and Scottish Enterprise has an ambitious programme of reform to get on and deliver.

09:00

The Convener: This goes back to the transparency issue, because there is a note in the budget that says:

> "Enterprise Agencies receive additional funding at ABR to deliver specific projects and programmes. This means that figures for the ABR 2025-26 Budget and 2026-27 budget are not directly comparable."

How is a committee expected to scrutinise the budget if we do not get directly comparable information?

Shona Robison: I accept that some of the in-year transfers make it difficult. We have tried to be as transparent as possible and have explained why some of the funding sits elsewhere. We are providing more than £325.5 million of funding for the enterprise agencies, and they receive additional funding from the Scottish Government in the ABR and spring budget revision. I understand your point, but the funding is to deliver specific projects and programmes. It is difficult to compare figures from the 2024-25 outturn, 2025-26 ABR and 2026-27 budget because of the in-year transfers.

I think that you started off by saying that progress is being made on transparency and improvement. There is always more to do, but I guess that there is always a tension when portfolio holders—cabinet secretaries who hold portfolios—wish to make changes to programmes. Once money has been transferred and baselined, it is very difficult for them to do so.

The Convener: I appreciate that, but we are just trying to get a clear picture of where budgets have gone—

Shona Robison: I understand that, and it is a fair challenge.

The Convener:—and of where money is being spent and not spent, so that we can see what is happening in a portfolio. Outside commentators who do not have the opportunity to sit here and question you for two-and-a-half-hours, as we are this morning, cannot see what is happening in reality because they do not have the information.

Sticking with the economy, what is the situation with the Scottish National Investment Bank? The Government is very ambitious about the bank's work, but there has been quite a significant decline in funding since the ABR—it has gone from £227.4 million to £190.4 million, which is probably a 16 or 17 per cent reduction. I do not see any notes about projects or programmes, so why is its budget being reduced so significantly?

Shona Robison: There is £200 million going to SNIB. We are supporting SNIB to make more "mission-assigned investments"—that is how it has described them—across Scotland. The bank has just celebrated its five-year anniversary and has already managed to crowd in £1.4 billion of third-party co-investments, so it is doing well.

We have also given SNIB flexibilities, which it had asked for, and we think that they will make a difference. We negotiated with the bank and agreed to give it those flexibilities. If it would be helpful, I can write to the committee and let you know what that will mean for the bank's flow of funding, but we have been able to provide one of its key asks.

The Convener: I notice that there is a £34.6 million capital allocation against the 2025-26 ABR budget, but that allocation was not in the 2024-25 outturn and it is not under the 2026-27 budget, so was that one-off spend? It just seems bizarre to go from zero to £34.6 million to zero again.

Shona Robison: I will have to come back to you on that, if that is okay.

The Convener: Okay, I could go into that more, but I realise that others are keen to come in.

Shona Robison: I just want to add, on flexibilities, that we have agreed that, for each and every year, SNIB will have access to up to £25 million of the Scotland reserve to deposit funding that can be carried forward into the next financial year, which will help with its cash flow.

The Convener: I will ask a final question before I let my colleagues come in. It looks as though arts and culture spending is growing quite healthily. Creative Scotland's budget in the ABR was up by a third compared with the 2024-25 outturn, and it is now growing from £89 million to £100.7 million, which represents an increase of about 11.7 per cent.

However, the national performing companies, which gave evidence to the committee a couple of weeks ago, have said that, in some cases, they are operating with more or less the same amount of money as they had before the financial crash. Their budget in the ABR was £24.6 million, and their budget in the 2026-27 budget is £24.6 million. Given that culture spending seems to be growing very healthily—I know that the Government has a policy of increasing culture spend by £100 million over four or five years—why are the national performing companies losing out?

Shona Robison: I saw some commentary about that. At the end of the day, it is important to find a balance in relation to funding for the national performing companies. They receive quite a significant level of funding.

The Convener: They are getting the same amount of money as they were getting a decade and a half ago. In which other areas of Government spending are people getting the same amount as they were getting a decade and a half ago? In no other area—other than perhaps tuition fee payments—has funding been held for so long without an increase. That means that the national performing companies cannot perform productions that bring money into Scotland or carry out the work that they do in improving wellbeing, reaching out to schools and so on.

Shona Robison: We have provided a significant uplift in the culture budget—

The Convener: You have, but the money is not reaching the national performing companies. If the culture budget was static, we might say, “Fair enough,” but it seems odd that, at a time when the culture budget is growing very healthily—we all appreciate that, and Angus Robertson has done a lot of good work in arguing for his sector—the performing companies are receiving real-terms reductions, given their flat-cash allocations.

Shona Robison: It is for the Cabinet Secretary for Constitution, External Affairs and Culture and Creative Scotland to work out the details of who gets what. A lot of funding has gone directly to smaller arts and culture organisations that were struggling, which has brought stability to those organisations in constituencies across Scotland. We need to balance funding for the national performing companies with funding for local arts and culture projects whose viability was under question. Such judgments always need to be made.

Angus Robertson has been engaging with the national performing companies on their concerns. However, if you speak to some of the organisations that are now getting funding across the spending review period, they will tell you that the right decision was made on where funding should go. There is never enough funding to keep everybody happy, so a balance must be struck, and that balance has focused on local arts and culture projects.

The Convener: Thank you. We will move on.

Michelle Thomson (Falkirk East) (SNP): Good morning. I will pick up on a few points.

The convener asked about the NPCs, whose concerns and disappointment were greatly exacerbated by the fact that they have done what I would regard as the right thing. That is particularly the case for the Royal Scottish National Orchestra, which set out in its economic impact report its contribution in gross value added—it gets a £6 return for every £1 invested, which roughly equates to the figures for the college sector. If the focus is on organisations that provide a tangible, specific and measured return through economic growth, as the work of Biggar Economics shows, the question why those organisations have not had any increase in funding since 2009 becomes even more relevant.

I accept that, as you said, the creative sector has been struggling. However, the RSNO—and the other NPCs, although led by the RSNO in particular—did what they and I would regard as the right thing, by proving economic value in the form of gross value added. Yet, here it is, still with the same funding as in 2009 and the chief executive expressing concerns that it might need to move to a freelance model rather than jobs, which of course support the fundamental ecosystem. Do you not think that getting work done to prove its GVA and, therefore, its economic value, was the right thing to do? Should it not be rewarded for that?

Shona Robison: Well, look, I think that the work that the RSNO has done in proving its economic value is important in itself—I am not disputing that for a minute. All that I am saying is that choices must be made in every portfolio and that demands are always larger than the available funding.

I am aware that the additional funding and the certainty of it has addressed the fragility of and pressure on the culture sector mainly in relation to organisations that have not had that guaranteed annual funding, which were the ones that were most at risk. I have certainly had that in my constituency and I am sure that many people around the table will be aware of organisations where that was the case. Creative Scotland went through its own review to try to make the funding more strategic and focused to bring that stability to the arts and culture organisations that many communities are reliant on and benefit from.

Ultimately, those were the decisions that were made. I am aware that Angus Robertson is engaging with the national performing companies, and we will need to see where that ends up. It is about that balance of where the funding should go.

Michelle Thomson: What I am trying to convey is that, to me, there is a difference. Nobody is disputing that a whole variety of creative organisations bring about wellbeing benefits in communities. However, the RSNO provides clearly demonstrable wellbeing benefits, as well as economic benefits that have been published. It is known: it can take the Scotland brand to the world and bring money back in. If there is an emphasis on providing economic growth—that is one of the priorities—surely, where that is demonstrably the case for a creative organisation, it should at least have got some uplift instead of staying at the same flat cash since 2009. In other words, not every creative organisation is as good as the next one. I am not saying that economic growth is the only measure, because I realise that creative organisations bring wellbeing benefits, too.

You do not necessarily need to answer that specifically. The brief question is, have you set any direction for the Cabinet Secretary for Constitution, External Affairs and Culture to be mindful of not only wellbeing but economic contribution?

Shona Robison: We would expect every portfolio to be very alive both to what the organisations in it bring to economic growth and to the importance of that in relation to everything that they do.

Michelle Thomson: That simply does not seem to be the case here. I will not labour the point, because I want to go on to other things, but I think that what has been encouraged and what has been done has not been followed through. One of the reasons why the NPCs are so disappointed is that they felt that they were doing the right thing. For what it is worth, I felt that they were doing the right thing.

I want to move on, though, to a point about the Scottish National Investment Bank. I think that what you meant about the year end and the flexibilities was to do with the budget and allowing the SNIB to carry over investment allocations into the next year, which is a good thing. Having the bank on single-year funding was ridiculous, especially when we look at what it is trying to do. Nevertheless, if one of the priorities is economic growth, I would still have expected the SNIB to see an increase in its budget because of its real economic value.

09:15

Why did that not happen? The flexibilities are eminently sensible and probably long overdue, but I would have liked to see more money. When the SNIB has such a clear link with things that bring economic value and therefore meets one of the missions, why have we not seen it getting more money?

Shona Robison: You will be aware of the reliance of the SNIB on financial transactions. We invest our FTs primarily with the SNIB and the housing programme. As I said earlier, the constraints of CDEL and FTs mean that we have to make judgments about what goes where, and we have maintained the £200 million to the SNIB, but it has been pretty successful at levering in £1.4 billion and the flexibilities that we have given it will help with the flow.

The Deputy First Minister and the SNIB have come to an agreement about what it needs in order to get on and do what it is doing. That outcome has been arrived at through negotiation and discussion with the bank, and we will continue to support it in doing what it is doing. I am sure that every organisation would like additional resources, but what we have done is support them to be able to do more of what they are doing. Giving them that flexibility was a key ask.

Michelle Thomson: That is a good thing. I will keep on with the theme of economic growth. You will not be surprised to hear me asking about ScotWind. I still believe that there is something wrong with ScotWind money—a one-off payment that you will not get back, as Graeme Roy has commented—being used for revenue. From a fiscal rule point of view, that is just a big no-no.

I accept what you say about a fixed budget, lack of flexibility in the fiscal framework and so on, but it is not a good idea to use that money for revenue, even if you manage to protect some of it, because when it is gone, it is gone. It begs the question of what happens when you do not have ScotWind money for revenue.

Shona Robison: I thought that the session with the SFC on that was interesting, because it said that it boils down to the lack of levers because of the fiscal framework—a point that you have made on a number of occasions. The SFC said that it is one of the few flexible pots of funding that we have, given the constraints on borrowing, the reserve and all the rest of it.

The SFC also said that it is not unreasonable to use the ScotWind money to smooth through that year, particularly when we look at 2027-28 and see the spending review looking like a V and then improving. If we had not done that, we would have had to make some major reductions to funding lines, including the main ones, such as local government, health and social security. That was the alternative in the absence of any other lever to smooth through that year. However, our track record shows that we have been effective in reversing out ScotWind allocations that we have made in previous years, because we recognise that we do not want to utilise that money for resource spending. We have been successful in reversing those allocations out and our intention would be to reverse as much as possible in 2027-28 for use in future years.

As I said earlier, I do not believe that the UK Government's spending review outlook, on which we are basing our outlook, will hold in its current form, given that we are heading towards a general election in 2029. The figures for 2027-28 and 2028-29 will change, for sure, in terms of the funding available.

The choice that we had was either to smooth things out through the use of ScotWind money or to show significant reductions, which we would have to plan for now.

Michelle Thomson: All of this links not just to economic growth but to fiscal sustainability, which, as you will know, the committee has referred to quite a few times. I am surprised that the Government has not committed to responding to the Scottish Fiscal Commission's fiscal sustainability report. Why is that? Given what you have said about the constraints of the fiscal framework, I am sure that you understand and agree with the importance of fiscal sustainability. Why is the Government not planning to respond to the Scottish Fiscal Commission?

Shona Robison: We have responded through the immediate spending review outlook. Indeed, it is why the fiscal sustainability delivery plan sets out efficiency savings that go quite far and quite deep in reducing corporate costs, with a reduction of 0.5 per cent over the course of the year, or around 11,500 full-time-equivalent posts. That will mean delivering services differently.

All of that will help ensure that, by the end of the period, we are in such a position that the books are balanced and the changes that need to be made in the transformation of services have been made. The public sector will be smaller at the end of that period, due to all those levers.

As for the wider, longer-term outlook beyond that, I would say two things. First, there has to be a fundamental review of the fiscal framework. I have made that point many times, and I have raised it many times with the Chief Secretary to the Treasury. Commentators in the main are supportive of our view that our levers are very constrained when it comes to smoothing out rocky periods in the flow of resource funding. It does not flow evenly, but our levers in that respect are very constrained.

The second thing is the demographic changes that are coming, which will require us to go further and faster with the transformation of services and with the use of more preventative spend to prevent people ending up in hospital and to address the exponential growth in the over-80s. All of that has to be looked at in combination with all of our front-line public services. We are really in the foothills with some of the automation and digitisation approaches, but we need to expand all that.

That would be my response: we are absolutely doing these things. All the work that is on-going in the immediate period will need to be stepped up if we are to be able to take on that demographic challenge.

Michelle Thomson: If the target for public sector reform is £1 billion, I am surprised that the investment available for invest to save is only about 3 per cent of that. Traditionally, it is quite expensive to save money. It costs money to save, so I thought that a figure of about 3 per cent was very low, and it makes me question how realistic the £1 billion figure is—although I know that that is a separate discussion.

Shona Robison: We would expect the savings that are being made to be reinvested in further savings, so we would want a bit of a cranking up to happen—

Michelle Thomson: It is going to have to go some, if it is to go from 3 per cent to £1 billion.

Shona Robison: The £30 million last year was really to oil the wheels of change, but the wheels then have to keep going within each organisation, rather than—

Michelle Thomson: It will need an exponential increase in speed, I think.

I will leave it there, because I appreciate that everyone else on the committee wants to come in.

The Convener: I call Craig Hoy, to be followed by Liz Smith.

Craig Hoy (South Scotland) (Con): Good morning. I want to go back to the question of transparency and in-year transfers. According to the Institute for Fiscal Studies, the key figures have been, in its words, buried "in an annex", and this is resulting in "a recipe for confusion". I also note that, because the Scottish Fiscal Commission has gone through the process of properly baselining all routine in-year transfers, it has described its account as "a more accurate picture".

The convener mentioned the £606 million that has not been baselined in that way. Why is the Scottish Government so resistant to putting in the budget the sort of very clear picture that the SFC has now put together? Are we not left to conclude that this is a deliberate ploy by the Scottish National Party Government to artificially inflate some budgets and hide cuts in others?

Shona Robison: Well, no. With regard to local government, if you look at table A.09, you will see that it actually lists all of the areas that are subject to in-year transfers, for the very reason that we want to be transparent. That has been the same in the last few budgets, so that information is there.

Sometimes these things happen for portfolio and policy reasons. The fact is that, once the money is baselined, ministers have no control over it if they want to change policy. The active travel line for local government is a good example of that. As I understand it, the Cabinet Secretary for Transport has changed the policy with regard to how active travel funding is to be given. We can provide more detail on that, but if that money had been baselined, she would not have been able to do that; she would have lost any control over being able to make changes in policy.

There is a balance to be struck here. Do you just put all the money out the door and then, if there is a change of policy, do you have to bring the money back? These are judgments that have to be made. We have baselined a lot of money, and we have done so each year. The direction of travel has certainly been towards baselining more and more funding.

Ellen, can you remind me what the additional baselining is? Is it £2.2 billion?

Ellen Leaver (Scottish Government): Since the Verity house agreement, it has been over £2 billion.

Shona Robison: Yes, £2.2 billion has been baselined since Verity house. The direction of travel has been towards baselining that money for local government, but there are areas where cabinet secretaries feel that there is a policy reason to hold the money, because policy might change. If you do not hold the money, you do not hold the policy.

The Convener: I just want to come in for a wee second, cabinet secretary. You suggested that the explanation for this was on table 8.09, if I heard you right—

Shona Robison: I am sorry—it is table 4.15, convener.

The Convener: I wondered that, because there is no table 8.09.

Shona Robison: No, it is table 4.15.

The Convener: Thank you—that was helpful. Sorry, Craig.

Craig Hoy: I have to say that I am struggling a little bit. When the Scottish Fiscal Commission can look at pots of money and say that they are routinely transferred—that is a regular process—why would you want to keep them in one budget portfolio, only to shift them, as you have done in previous years, later in the year, unless there is some element of trying to create some confusion about the underlying picture?

Shona Robison: We are not trying to create any confusion, which is why table 4.15 sets everything out.

Craig Hoy: But there is confusion now in local government, and it is causing real problems for councils across Scotland. They were told that in the budget they would get year-on-year real-terms increases, but the councils that I am speaking to are looking at quite considerable above-inflation council tax increases, because they do not believe that they will get the levels of funding that you say they will. That is the impact of the confusion that you are sowing.

Shona Robison: I am not sowing any confusion. There is a real-terms increase for 2026-27; I set out very clearly to the convener earlier that that additional funding is absolutely there. If you do a budget-to-budget comparison with last year, you will see that there is a 2 per cent real-terms increase in funding.

The spending review that you are referring to is essentially for planning purposes, and it is flat cash, because the figures at our disposal are incredibly tight. As I explained earlier, 2027-28 is particularly tight. The planning assumptions that I have set out to local government are based on what we have available to us, but the funding position, budget to budget, is likely to be different from that. As I pointed out to the convener, when you look back at the 2022 spending review, you will see that there was a flat-cash outlook then, too. What local government actually got was about £3 billion higher than that.

We can plan only on the basis of what is in front of us, but I expect those figures to change—and to change considerably.

Craig Hoy: History does not always foretell the future. You are saying that, in the run-up to the election, a UK Labour Government will find more money and spend more, which you will benefit from. Is that not a wing-and-a-prayer approach to long-term spending planning?

09:30

Shona Robison: No. I have set out what we know in the spending review, which is that we have flat cash, and I am saying that no spending review has ever stayed the same—none. It was the same under the previous Conservative Government. No spending review remains as it is set out; it always shifts. All I am saying is that, on the basis of the history of what has always happened with spending reviews, there will be movement on the figures. We have tried to say, on the basis of what we know for sure, what it will look like, but all past spending reviews have moved and shifted in a positive direction, and that is what I expect to happen.

For 2026-27, there has been a real-terms increase in local government funding on the basis of the funding that is available to us, which I have set out.

Craig Hoy: Analysts are projecting that there is a significant chance that the next Government might need some kind of emergency budget in 2026-27. Are you busy writing a “there is no money left” letter for your successor?

Shona Robison: No, not at all. I do not accept your point. We have always managed to balance the budget. If you are going to quote, you could quote some of the credit rating agencies that have praised the prudent financial management in Scotland.

I think that we have set out a reasonable position for local government funding. By any commentator’s view, there has been a real-terms increase, but there is a difference depending on whether you compare to the ABR or to last year’s budget. The reason that you cannot compare to the ABR is that, as I set out, we had employer national insurance contribution funding of £144 million and pay of £109 million, which inflated the ABR position. SPICe, which guides committee members as to what is reasonable, has clearly said that that is why it is not reasonable to compare the budget to ABR. It is more reasonable to compare the local government settlement from budget to budget, because of the in-year movements. I agree with SPICe on that.

Craig Hoy: In relation to tax, you are making a virtue of saying that the majority of people in Scotland will pay less tax than people in the rest of the UK. Has that been the case for the past two years?

Shona Robison: Taxpayers in Scotland earning less than around £33,500 will pay less income tax in 2026-27 than they would if they lived elsewhere in the UK.

Craig Hoy: How much less?

Shona Robison: I will come to that if you give me a minute. According to the SFC’s estimates of median incomes, which were published alongside the budget, more than half are set to pay less after deductions in 2024-25, 2025-26 and 2026-27. As I have said before, accounted-for deductions, such as pension contributions, are required to reflect the tax that is actually paid by taxpayers.

On your question about the level—

Craig Hoy: Pounds and pence annually would be a good figure to get. How much less are people paying in tax each year?

Shona Robison: The average household in the lower half of the income distribution will be around £480 better off than it would be under UK tax and social security policies. You have to look at it in the round. It is not just about tax; it is also about social security.

Craig Hoy: I am asking for a simple figure, which you must have, cabinet secretary. If 55 per cent of Scots are going to pay less in tax than people in the rest of the UK, what does that equate to in pounds and pence over the course of a calendar year? It is a simple question.

Shona Robison: Relative to tax paid in 2025-26, someone would be £32 better off. The policy impact relative to the SFC baseline is £25 up to an income of £40,000. Do officials want to add anything to that?

Lucy O’Carroll (Scottish Government): No—those are the correct figures, cabinet secretary. As you said, the issue is seeing things in the round—not only the tax, but other benefits on the other side of the ledger, including social security.

Craig Hoy: I do not want to see things in the round. I want to see the figure by which this claim that you are trumpeting—

Shona Robison: Well, I have just told you the figures.

Craig Hoy: If you look at the complexity of the Scottish tax system, it has been built in such a way that it effectively allows you to make that claim. It is barely worth the paper that the press release was written on. The figure is £32 a year. When I described the budget as cynical, that is the kind of example that I was alluding to. Why was it fair for you, in the budget, to increase benefits in line with inflation but not the upper rates of the tax thresholds?

Shona Robison: I will come on to that in a second. On the one hand, you are saying that it is important that I prove that a majority of taxpayers will pay less than they would if they lived somewhere else in the rest of the UK. Then you move the debate on and say, “Aha! But it’s not that much less.” The point is that we are not increasing the tax burden on the lower paid; we are reducing it and taking it in hand with social security supports. Those in the lower half of the income distribution in Scotland will be about £480 better off than they would be if they lived anywhere else in the UK. That is significant. It is a deliberate attempt to support those who are on lower incomes.

On your point about the higher thresholds, three quarters of taxpayers are not affected by the freeze to the higher thresholds. We are not freezing them to the same extent, over the same period, as the UK Labour Government. We will review the policy in a shorter period than the UK Government has set out, because it is right to do so.

If we were to shift the higher rate threshold, even to about £44,000, that would cost £125 million. If you are proposing that we should do that, you will have to point out where that money would come from. Earlier, we discussed funding for local government, and you pressed me on whether there is a real-terms increase. If I had to find £125 million to marginally increase the higher rate threshold to £44,000, it would mean that there would be £125 million less for local government or health.

Those are the choices that you have to make when you are in government, in order to reach a fair position. People get a lot from the social contract for the taxes that they pay, and they get far more in terms of social benefits. Those are the policy choices that we have set out. It is for others to set out alternatives, but they also have to say where the money would come from.

Craig Hoy: Finally, welfare expenditure is an area where I think savings could be made. By the end of the decade, the welfare bill will be approximately £10 billion. Given that there is a significant amount of public money on the table, what assessment has the Scottish Government undertaken, or will it undertake, of the true overall costs of the benefits framework that you have put in place? What assessment are you making of behavioural change, which would include lost tax receipts when benefits disincentivise work?

Shona Robison: We have made an investment in social security in Scotland because we believe that it is the right thing to do. Incidentally, the inflation increases that you referred to were agreed unanimously in Parliament. It might have been before you were elected, Mr Hoy, but every party signed up to those inflation increases in the legislation. In fact, I think they were actually moved by one of your former colleagues. It is not just the SNP Government that has agreed this; it was a unanimous position taken by the Parliament that these benefits should be uprated by inflation. If you are now changing tack and changing your mind, the important thing is that you need to say who should lose out and how the system would change.

By the way, to do that, you would have to consult and do a full assessment, which is also set out in the legislation. The idea that that would be done for 1 April this year to save money for your tax cuts is for the birds, because it would not. It would take at least a year to go through the process of changing benefits and removing them from people, in addition to which you have not specified who the losers would be.

We have made the investment in social security. As you can see from the SFC's analysis, the proportion of investment that we think we will have to make, according to the medium-term financial strategy, has fallen for a number of reasons, including those relating to the number of adult disability payment claimants. That pressure throughout the spending review period has been reduced for the reasons that have been set out. A report that has just been published by the chief social policy adviser says that the two main contributors to the increase in disability benefits are rising rates of ill health and the UK Government's raising of the state pension age. I make no apologies for our investment in social security.

Craig Hoy: The question that I asked was what assessment of behavioural change has the Government undertaken? I am not hearing that you have done any.

Shona Robison: There is no evidence that there is a cliff edge for people who are on disability benefits. You need to remember that some of these people are already in work. We have not seen any evidence that there is a cliff edge that prevents people from getting into work because they are on benefits. The latest figures show that the number of people who successfully claim adult disability payment through Social Security Scotland is quite modest. We need to consider everything in the round before making judgments.

Craig Hoy: My final question is on the same theme. This weekend, it was revealed that 60,000 people are claiming ADP for anxiety-related conditions. Do you know how many of those 60,000 people are in work and how many are not in work?

Shona Robison: No, but I am sure that I could get those figures for you.

I hope that you would accept that the need for mental health support has increased, particularly in the post-Covid era, not just in Scotland but in other jurisdictions. We need to support those people, and we also need to support people to avoid falling out of work. That is why it is important that people get the right support when they need it, including when they return to work. We need to support people back into work, which is why we are funding our employability programmes and providing £8 million for colleges to work with parents and help those who are furthest from the labour market to get back into work.

Nobody disagrees that work is the best way out of poverty, but I believe that Scotland has a compassionate and fair system for people who need support. Those who want to change that system need to set out how they would do that and who would lose support.

Liz Smith (Mid Scotland and Fife) (Con): Good morning. When it comes to making difficult policy choices in the very tight fiscal circumstances that we all face, do you agree that the emphasis should be on the policies that deliver the best outcomes and that there should be less emphasis on the policies that do not?

Shona Robison: It is hard to disagree with that in principle. It is a case of considering the evidence on the outcomes of policies. I assure you that, when we set budgets and through our work on the spending review, policies are pretty robustly scrutinised and tested. Every cabinet secretary in every portfolio is challenged to set out the degree to which their spending is having an impact on the First Minister's four key priorities. That work was done through the spending review process, which was quite rigorous.

There are always choices to be made. Judgments about the impact of removing a source of funding to a particular service or a particular social benefit will be made in the round, but I assure you that these things are regularly and rigorously challenged.

09:45

Liz Smith: I am interested in that because, as you will recall, in paragraph 73 of this committee's report on the budget we expressed our disappointment that there was not more detail about this very issue, particularly when it came to measuring the value of universal payments. In replying to that criticism, the Government said:

> "the Scottish Government is developing its approach to public value",

which

> "will embed a framework for understanding spending proposals".

That was the Scottish Government's response.

This time last week, I asked Professor Graeme Roy whether he was aware of what that framework was. He said:

> "I am not aware of it."—[*Official Report, Finance and Public Administration Committee*, 20 January 2026; c 25.]

Can you provide us with some detail on what that framework is?

Shona Robison: What I can tell you is that, when we went through the spending review process, a process was set out that all portfolios and cabinet secretaries had to follow in terms of the value and impact of the spend within their areas. A key set of questions and challenges were followed through for every portfolio, and I engaged directly with each cabinet secretary in challenging them on that. They had to set out on a template the value of the spend within the portfolios. That process was consistent for each area of spend across Government, as you would expect.

Liz Smith: But given that there is concern—which this committee has expressed not just this year but for several years now—that it is absolutely critical to have transparency in times of difficult circumstances, is it not something that the Government would choose to provide more detail on than we currently have?

The Scottish Fiscal Commission made the point that, if you compare the current Scottish spending review to what was produced in the 2011 spending review, we are not getting nearly enough of the budget line 3 spending requirements. It is therefore very difficult for us, as a committee that is supposed to be scrutinising the finances of the country, to know exactly where the most productive policy engagement is and where the Government would be perfectly in order to deprioritise, because the outcome is not so good. Is that not fundamental to the process of budget making?

Shona Robison: The figures that we have provided are at a significantly more detailed level than what is in the UK spending review, for example, which is much less—

Liz Smith: I am interested in the Scottish one. Let us not forget that the Scottish Fiscal Commission has had to come up with some of its own figures in contrast to what the Scottish Government has been saying. The Scottish Government has said that there is a 6.6 per cent real-terms increase in the education budget, but the Scottish Fiscal Commission has said that it is a 0.8 per cent real-terms increase. The Scottish Government has said that there is an 8.9 per cent real-terms increase in the housing budget, but the Scottish Fiscal Commission has said that it is a 3.9 per cent real-terms increase.

Shona Robison: First, on the point about the level of detail, we have provided level 4 detail for health and local government. Have we provided it at that level for social security?

Richard McCallum: We have provided it at level 3 for social security.

Shona Robison: We have provided level 3 detail for social security. We have provided additional detail for health and local government because those are among the biggest spending areas.

On your other point, we have, on a number of occasions during this session, tried to set out why we have a different comparison for the local government budget—it is a budget-to-budget comparison rather than comparison with the ABR, because of the in-year movement. We have set all of that out in the budget—as we did last year and, I think, the year before—in table 4.15.

We have tried to be as transparent as we can be with the amount of material that we have published, not just in the budget but in all the associated documents. Is it complex? Yes, there is a lot of material and a lot of information there. I accept that, but we have absolutely tried to set all of that out in as transparent a way as we can.

Liz Smith: I do not doubt that, cabinet secretary. I am sure that it is a difficult job, particularly just now. However, the Scottish Fiscal Commission—which is clearly being very diplomatic about this, as it usually is—is not confident that some of the statistics that the Scottish Government has presented to it match up with its own analysis. Mairi Spowage told us that, when it came to college funding, she was not at all clear about where the specific lines were in that portfolio. We had David Bell saying that he was "completely confused" about how the fiscal sustainability delivery plan closes the fiscal gap. Is it not an embarrassment to the Scottish Government that there are experts in their field who do not feel that there is sufficient transparency in the Scottish budget?

Shona Robison: On college funding, I think that reasonable points were made. We have responded by saying that the Cabinet Secretary for Education and Skills will provide clarity to the Education, Children and Young People Committee on the presentation of that funding, given the issue of all the infrastructure investment being put together and items not being separated out, including things such as the Dunfermline learning campus, which has not provided clarity in the college funding line. Where a fair point has been made, we have tried to respond to it.

On the point about the fiscal gap, what we set out in June in the fiscal sustainability delivery plan included a lot of detail. That has now been built on by the work that Ivan McKee has done on each portfolio, with its savings plans and efficiency plans. The workforce reduction plans clearly set out where those reductions are going to happen and the definitions of front line and back office. There is a lot of material that lays out the path to the savings that we need to make by the end of the spending review. I am not sure how much more detail could be provided in that space.

On the local government issue, as SPICe has recommended, we compare the local government budget to the local government draft budget, because of the in-year transfers into the local government funding line. I have already talked about the 2025-26 position, in which there were two particular areas of funding that would distort an ABR comparison—employer national insurance contributions and pay.

I am trying to be very transparent about why the figures are the figures. I am not sure how much more I can say about that.

Liz Smith: I am just putting it to you that, despite what you say about the ABR and so on, our experts who are scrutinising the budget are being very clear in all their comments. It is not just one person saying this; our senior economic analysts are all saying the same thing—that, as we scrutinise the budget, there is confusion over where the budget spend is and, therefore, over where the best results are. Also, let us be honest, cabinet secretary: your budget speech had to have two corrections made to it, which were welcome and made quickly. There was an issue about the A96 and an issue about the provision for school swimming.

The on-going lack of transparency makes it difficult not only for the committee but for the public to understand which lines of spending will best deliver the results that the Government is seeking to achieve.

Shona Robison: The A96 issue involved an omission from the infrastructure investment pipeline, which should have had the A96 corridor as a third line. That is what was signed off by ministers, and I am sure that the record will show—because it is a fact—that the line that was removed should not have been removed. In my statement, I talked about the elements that were part of the budget and the spending review, and, in answers to questions following my statement, I made clear our commitment to the A96 corridor as a whole.

On the swimming issue, I got it wrong when I said that it was temporary funding—it is not. I am sorry, but, after about two hours of questioning, we might occasionally get something not entirely correct. It is actually continuing funding, which is a good thing. I am afraid that there will occasionally be errors, and we have tried to correct them. In every budget, with all the material, there will be some errors, for sure, but we have tried to correct them as quickly as we can.

Liz Smith: Never mind the measures in the budget; overall, considerable concern has been expressed about how the Scottish Government delivered it, and there has also been the analysis of our experts.

Shona Robison: SPICe is also an expert organisation that provides support to parliamentarians, and, every year, it compares the local government settlement from budget to budget, because of in-year transfers. I am not disputing anything that anybody has said; all that I am saying is that there are good reasons why we do not compare local government funding to the ABR, which I have tried to set out as clearly as I can.

Michael Marra (North East Scotland) (Lab): Thank you for your answers so far this morning, cabinet secretary. I will continue with this area, if I can.

The Scottish Fiscal Commission has produced a table—it is figure 4 on page 15 of its report—that sets out its understanding of what has happened. Why do you think that it has felt compelled to do that work? You have given a robust defence in response to various questions about transfers, but why has the SFC felt compelled to do that work, if it does not think that the information is hazy at best?

Shona Robison: I will bring in colleagues, but at no point in our discussions with the Scottish Fiscal Commission has concern been raised with us that the information is hazy or not transparent. Any information that the Fiscal Commission provides is helpful. If it is able to provide additional clarity, that is not a bad thing.

Michael Marra: Thank you. We have had a fair amount of evidence from the Scottish Fiscal Commission and the other experts that Liz Smith referred to that the information is hazy at best.

Ahead of next year's budget, would the Government agree a process with the Scottish Fiscal Commission?

Shona Robison: We have a process with the Scottish Fiscal Commission.

Michael Marra: I am asking about the presentation. I know that you have a memorandum on how the budget is prepared, but will you agree a process for the presentation of transfers, so that we do not have to have two hours of questions about the issue and so that we can have the transparency that the public need? Would you agree a process?

Shona Robison: You have probably heard me say at another evidence session like this, since I have been finance secretary, that I will always consider what improvements and changes can be made in the light of recommendations. We work closely with the Scottish Fiscal Commission, and we will want to look at its recommendations and reflections. If it recommends setting out the in-year transfers in a different way, we will respond to that. One reason why we have table 4.15 in the budget document is to set out clearly what the lines involved are. The answer is yes, of course.

Michael Marra: Thank you. That would be a useful thing for everybody concerned.

In the coming year, will pay rises be restrained to 1.1 per cent in Scotland?

Shona Robison: We have very much focused on getting two-year pay deals as part of the 9 per cent pay policy, and we have done so successfully. That brings a level of certainty to those who provide public services that there is now a space to talk to the unions and workforces about transformation, rather than just about pay. Buying time for that work to be done is really important, and the two-year pay deals are critical.

As I have said, we will set out what the expectation is for 2027-28, with the recognition that it will be tight to remain within the 9 per cent pay policy.

10:00

Michael Marra: The SFC does not think that you will do that and has not used the pay policy in its forecasts. Are you concerned that the SFC does not believe what the Government is saying about its pay policy?

Shona Robison: I am keen to hear what the SFC has to say about pay. I have seen its comments and reflections.

There will be a number of factors, including what the potential transformation and reform will mean for the delivery of workforce reductions. There is a clear relationship between head count and pay, and what organisations can deliver via efficiency savings will be important and will play into future pay rounds.

Inflation will also be important. If it comes down to 2 per cent, as desired, that will be a factor in pay negotiations for 2027-28. Given the pressures on the budget for that year, we will need pay constraint. It will be a very tight year indeed, and we must set reasonable expectations. I believe that pay increases have been fairly generous so far, but they have also allowed us to avoid costly strike action. We must look at these things in the round.

Michael Marra: In your answers today, in the Scottish spending review and in the budget, you are asking us to assume that you will make good on a lot of promises, including those about workforce reduction and public sector productivity. You have set out a pay policy of 3 per cent each year, but it is clear that you have not managed to keep to that. You have also not adjusted it, although your policy was that, if the figure went above 3 per cent one year, there would be a reduction in the subsequent year.

That is a pretty clear example of the Government's inability to control its cost base. You have given reasons why that is, but you are asking the committee to put a lot of faith in your ability to control some of those costs when we have a concrete example of you not managing to do that.

Shona Robison: I would say that the two-year deals mean that we are in a good place on pay. The alternative would be industrial disruption in many sectors, which we have managed to avoid by having two-year deals. Those are affordable and would not have been agreed if they were not so.

The robust work that has been led by Ivan McKee will have to deliver workforce reductions. We have set out what those reductions will be in every area. Cabinet secretaries and organisations, including health boards and other front-line services, will be required to deliver those reductions and will be tracked as they do so. We are not working on a wing and a prayer: there will be tracking, requirements, accountability and transparency in the delivery of all of that.

The final piece of the pay policy will be to revisit it in 2027-28 to see what is possible in the light of budgetary constraints, where inflation is and what the efficiencies have delivered by then. Head count and pay are absolutely interlinked.

That is not perfect, but you know as much as I do about the cost of industrial action—not just the cost in pounds and pence but the cost through the disruption to and impact on public services—and we have managed to avoid that.

Michael Marra: In June 2025, the minister, Mr McKee, set out a £1 billion target, which was increased to £1.5 billion in the budget. The target is based on assumptions that independent commentators have called "heroic". For example, public sector head count increased by 6 per cent in the most recent quarter for which figures are available. Your track record suggests that you are not delivering on the process that you have in place, so why should the committee believe that you will be able to deliver on the process that is ahead of us?

Shona Robison: I do not accept that characterisation. Work has been done at a very detailed level to deliver reasonable workforce reductions, which now have to be delivered. Essentially, they are baked into the assumptions that are being made about funding. Workforce reduction has to be delivered; it is not a nice-to-do.

Michael Marra: The Government has been saying a version of that for years—going back to the resource spending review that your predecessor commissioned. It has been talking about restraint in those areas. However, the latest published figures show a 6 per cent increase.

Shona Robison: I will come on to the latest workforce figures.

If you look at what we have done to date, you will see that we are not going from a standing start. We have in the past delivered savings on workforce and on the single Scottish estate. We expected to save about £280 million from the work that was done over the two-year period to 2024-25, and the final figures show that the programme saved more than that—it saved more than £320 million over that period. We have saved money, and that can be demonstrated.

On workforce figures, we have seen a massive reduction in the contingent workforce—that is, contractors and those in temporary positions. We have also seen reductions in the core civil service.

Michael Marra: According to the Government's own figures for the third quarter of 2025, public corporation numbers rose by 5.8 per cent.

Shona Robison: The directly employed workforce is reducing, having decreased by 1.6 per cent over the 12 months to September 2025. That is the largest reduction in the directly employed workforce in a 12-month period since 2012. There has been a reduction, but we need to go further.

The definitions of "front-line" and "back-office" are important, and we have been discussing them with the trade unions. We have a board that is responsible for the delivery of all of this, and we have been working with the trade unions to ensure that they have a voice around that table.

We could not be more serious about the need for us to change how the public landscape looks and is delivered. We need corporate services to be reduced. My budget is reducing because of the reduction in corporate services and the reduction in total operating costs. All of that is set out clearly in the budget. Is it ambitious? Yes, it is. Is it deliverable? Absolutely. It needs to be delivered, and it will be.

Michael Marra: On a point of detail, you say in the spending review, on finance and local government, that there is a target of £193.4 million for savings and efficiencies, of which £128 million sits under the heading of "Other Efficiencies and Reform". That offers no level of detail for us to scrutinise whether that figure is serious or deliverable, does it?

Shona Robison: In all the documentation that Ivan McKee has set out as part of his work on public service reform, he has gone into a huge amount of detail for each portfolio area. Each portfolio area has had to complete returns on the level of workforce reductions for each public body. Each public body has a target for head-count reduction, which can be tracked. All the material on that can be provided, and I am happy to provide it if doing so would be helpful.

Michael Marra: That would be useful.

You mentioned in previous answers that pro formas were being prepared by cabinet secretaries. Can you provide those to the committee?

Shona Robison: I will provide the questions and the framework of the discussions. I will not necessarily provide material on the detailed discussions held about that information, because they were part of my meetings with colleagues about what the options were.

Michael Marra: Do you not think that we should see the options that were considered?

Shona Robison: What we discounted and what we decided to do are all part of ministerial business. I will provide information on what areas were discussed, what format portfolios were required to look at and what questions were provided to them. I can provide all of that, if that would be helpful.

Michael Marra: Thank you. I have noticed, in recent days, that the Scottish Government is to establish a new public body on housing. Will you be removing another public body as a result?

Shona Robison: Work is going on with regard to what rationalisation and changes across the landscape will look like. I am sure that, during the election campaign and in their manifestos, each party will set out its view of what the public sector and the public body landscape should look like.

I think that the housing public body will provide a very important function—

Michael Marra: I am sure that it will, but we previously heard a commitment to a one in, one out approach. We are not going to see one out before the election.

Shona Robison: We are absolutely committed to reducing the public sector landscape—

Michael Marra: Just in the plans.

Shona Robison: We will set all of that out, as I am sure that your party will.

Michael Marra: Yes, I am sure that it will.

Lastly, in your budget statement, you mentioned a commitment to colleges and to college capital and you referred to the project that is being planned for Dundee and Angus College. However, that project is not in the delivery phase, and it is not in that mysterious area of development. Frankly, it looks as if it is in the deep long grass of the future. Despite highlighting the project's importance, do you admit that there is no money in the budget for it at all?

Shona Robison: I had a very good meeting with the college principal last week, when we talked about the work that is happening on what is a very ambitious project and how the Scottish Funding Council is gearing up and working with the college as one of the first out of the box, if you like, to use a new revenue finance-based funding mechanism. The Scottish Funding Council is working on the detail of that with the college; the college principal is now sitting on the funding group; and the group has been given to autumn to come up with the actual mechanism and vehicle for delivering the revenue finance infrastructure plan, starting with the two colleges that have been prioritised—Dundee and Angus College and Forth Valley College. That vehicle can be used for further investment in the college estate; the key will be private sector investment through revenue finance, and that detailed work is on-going.

I guess that my reflection back to you, Mr Marra, is whether casting doubt on a project and describing it as being kicked into the long grass is in any way helpful in building confidence in the private sector, which will be required to come to the table to provide the finance. I do not think that that has been received very well by the college—

Michael Marra: To be fair, cabinet secretary—

Shona Robison: —and those who work in the college. It is really important that we build confidence in a very ambitious project that the Scottish Funding Council is prioritising. Lots of detailed discussions are going on. I am sure that, if you were to ask the college, it would be able to tell you about them.

Michael Marra: Obviously, I speak to the college on a regular basis.

Shona Robison: Well, then, I am sure that you will be aware of that detail.

Michael Marra: Yes, indeed.

It is your plan that put the project not in delivery or in development but in the future. You will recognise that the Kingsway campus has to be closed within two years, because of reinforced autoclaved aerated concrete. That is the lifespan that it has been given. Do you think that this plan, in which you have placed the project in some amorphous future, will ensure that the money flows to allow us to build a new campus within two years?

Shona Robison: I think that you need to speak to the college, because you are now misunderstanding the various phases of the project. The first phase is a shift out of the RAAC-affected building to Gardyne campus, and it will involve looking at the existing resources that the college has been able to identify, plus resources that are available through negotiations with the Scottish Funding Council. Those negotiations on the first phase are on-going.

The phase after that is the Wellgate centre regeneration project, and that is where the revenue finance vehicle will come into play. We are talking about two different things here.

Michael Marra: I do not think that we are.

Shona Robison: I can assure you that we are talking about two different things.

Michael Marra: Cabinet secretary, I am not sure that you know what is in my mind as I am talking to you, so I will explain it to you. This part of the process—the upgrade to Gardyne campus—is partly funded by the UK Government and is contingent on a broader plan in order to deliver the whole plan. My question to you is this: at what point will we have clarity on whether that money will flow to allow the whole plan to proceed?

Shona Robison: The first bit of the plan is using some of that money—

Michael Marra: But it is contingent on the decision, cabinet secretary.

Shona Robison: I am well aware of the detail, Mr Marra. You do not need to tell me—I am well aware of the detail. It will involve those sources of funding—the Tay cities funding—but that will have to be matched. That is why the Scottish Government is in discussion with the Scottish Funding Council about the first phase move to Gardyne.

10:15

In addition, and separate from that, is the Wellgate infrastructure project, which is far bigger and more expensive. That is where the revenue finance vehicle needs to be established—the timeframe that has been given is by the autumn—to make sure that the work can go ahead with the vehicle to deliver and get the private finance on board. That is more technical, as you will appreciate, because it involves a special purpose vehicle that will have to be established, with all the requirements that will go with that. The first phase of that is under discussion with the Scottish Funding Council. It is well aware of the timeframes around RAAC, and I assure you that it is well aware of the detail.

John Mason (Glasgow Shettleston) (Ind): We are talking about planning ahead. It is good news that the 2027-28 reconciliation, which was thought to be £851 million, is now down to £310 million. That is compared with what we thought last June. It strikes me that, when there are such large swings in forecasts, it is almost impossible to plan several years ahead. We are so dependent on Westminster and what happens there. Do you think that we can plan ahead?

Shona Robison: I was quite struck by the session that you had with the Scottish Fiscal Commission, which laid out in relation to the use of ScotWind funding the severe limitations on us and the lack of levers, which mean that we are not able to smooth out the peaks and troughs of funding. As things stand, we are reliant on the peaks and troughs of the UK spending review; 2027-28 is a trough and it will be challenging. We do not have the levers to smooth that out, other than by being able to deploy ScotWind. Without that, we would be looking at resource reductions to allow us to plan.

On your point about negative reconciliations, yes, we can borrow to cover those, as long as they are within a certain limit. The modifications that were made around the edges of those powers in the previous fiscal framework review are not unwelcome, but it was so limited in nature. Like the other devolved Administrations—the Welsh are saying exactly the same—we need more flexibility and additional levers to be able to borrow to smooth out. We are limited in that at the moment, which is why I have been trying to get the Chief Secretary to the Treasury on to a page where we agree a more ambitious review and work out its terms.

The time is right. After many years of limitations, we now know what the issues are. The time is absolutely right for a more ambitious review.

John Mason: One of the points that Professor Heald raised last week was that, especially with social security spend, which is demand led, the UK has two separate headings—departmental expenditure limits and annually managed expenditure—so there is more flexibility at the UK level if social security is a bit higher than expected. We do not have that, and what we have is purely within DEL, effectively. Is that something that you would speak to the Treasury about?

Shona Robison: Yes, potentially. It is a good point on police and fire pensions, for example. We have finally managed to get agreement to move funding into AME. We were carrying all the volatility and all the risk, so we have been able to shift that into AME, which gives us no fiscal benefit apart from future proofing against risk. It is a good thing, and we have moved forward with that.

Your point is well made. Although there have been constraints, UK Government departments have traditionally relied on reserve claims. I understand why the new UK Labour Government has put in place some pretty rigid restrictions—we had the chaos of the previous UK Tory Government underfunding budgets and relying entirely on reserve claims, and we ended up having to have emergency budgets because we found out what funding we had only late in the day. Those changes are welcome, but the fundamental point remains that, when we consider the peaks and troughs in the spending review outlook—2027-28 will be particularly difficult—the only lever that we have been able to deploy has been the one that we have created ourselves: the ScotWind fund.

John Mason: Social security spending, which has been mentioned, has been a bit of a challenge, but we understand that the gap between what we are paying and what the UK is paying is narrowing rather than widening, as it had been. People were perhaps a little surprised about that. It has been suggested that fewer applications are now being accepted. Can you say anything about that?

Shona Robison: Social Security Scotland has been doing some analysis on that. Initially, a lot of existing cases were transferred, and we might now be getting into a different phase of ADP applications. Social Security Scotland has been looking at the reasons for the change, and the report by the chief social work adviser that has just been published or is just about to be published attempts to shed some light on that.

Overall, if we compare what was set out in the MTFS with the current predictions for social security spending up until 2029-30, we see that the figures are quite significantly down. One of the reasons for that relates to UK Government changes to benefits and its decision on the two-child cap. The reduction helps with fiscal sustainability, which we discussed earlier. The removal of a few hundred million pounds makes the path a bit easier, which is to be welcomed.

John Mason: Were some of the forecasts that suggested that we could not afford social security a bit alarmist?

Shona Robison: We have debated that issue numerous times. We are clear that our investment in social security is good for our country, for our people and for the economy, because people tend to spend their money locally, as we have talked about previously.

I am just making the point that the position has narrowed compared with what was set out in the MTFS. Some of that narrowing is primarily down to UK Government decisions, but some interesting information on applications is emerging. I am sure that Social Security Scotland will look in some detail at why there has been a fall in the number of successful applications. As I said, I think that the initial cases that were transferred involved very few changes to entitlement, but the new cases that are being dealt with might well be different. I am sure that Social Security Scotland could provide additional information on that.

John Mason: Professor Heald said that, as more taxes have gradually been devolved to Scotland, the risk that we face has increased. Broadly speaking, I am in favour of Scotland controlling more taxes. I am sure that you recognise that Scotland is taking on more risk, but does the Treasury recognise that? That is another reason for reviewing the fiscal framework.

Shona Robison: Yes, potentially. That is interesting, and, again, we could provide information on this to the committee. The devolved Administrations undertook some analysis on the assumptions that the Treasury makes about the risk of exposure when borrowing, for example. Treasury assumptions are always for the maximum level of risk and volatility, yet we would never make such decisions. However, due to those assumptions, the Treasury's approach is that we cannot have additional flexibilities and powers because that would affect UK Government borrowing and, in essence, distort or put additional risk into its plans and planning.

However, we have had a very interesting debate with the Treasury about its assumptions being at the worst-case end, when no Government would do something at that level of risk. The Treasury has been assuming a high level of risk, but the devolved Administrations said that, actually, we would take decisions at a lower level of risk. There is much less risk involved than the Treasury has been assuming. We thought that that might be a way in to those additional flexibilities, particularly at the end of the financial year, but, so far, we have not managed to persuade the Treasury. Jennie Barugh has been closer to the detail, so perhaps she can add to that.

Jennie Barugh (Scottish Government): Over the past year or so, there has been a concerted effort across the devolved Administrations to engage on fiscal flexibilities because it is a shared issue across the different Administrations. As the cabinet secretary said, quite a lot of work has been done on that. The Treasury position just now is that the chief secretary is not willing to have that conversation outside of the context of an overall review of the fiscal framework, so our expectation is that no decisions will be taken on additional fiscal flexibilities until we are in that fuller review. The agreement is that the broad scope of the review will be agreed before the Scottish election in May, with that work carried forward thereafter. The intention is that the review is concluded in 2028, which is obviously quite a long timescale.

A lot of the areas in scope for the review were rehearsed last week in committee with the experts to whom you spoke, and one of the main contenders is the scale of the reserve. That came through in the committee's letter to the Government on the scope of the review. The annual cap on borrowing and the size of the reserve are the two things that really constrain the Government in being able to pass money through from one year to the other, for example.

To go back to the example of in-year social security spending, the Government has the ability to borrow to offset any in-year change to the net position on social security, which is a helpful flexibility for managing the in-year position. However, there is an annual cap on borrowing and, in the event that that had already all been used to, say, offset a negative reconciliation, we would not be able to draw on the additional borrowing to manage the social security spending in year. For example, as has been said, the reconciliation was going to be £851 million—that changed, but, if it had continued, we would have used all the resource borrowing for that year. That is an example of the cap on annual borrowing being a constraint. The other one is passing through the reserve.

John Mason: That is helpful. The UK Government has said that it will have only one fiscal event a year. Do you believe that?

Shona Robison: In the light of the chaos that ensued with the previous budget, I am not sure that I do. It is difficult to assume that that will be the case in the light of what we all witnessed, so I am not sure.

John Mason: I have one or two specific questions. How is the money from the two extra council tax bands, which I think will come from only some local authorities, be spread around?

Shona Robison: Ultimately, that is something that COSLA will need to decide on.

An option for COSLA would be to decide on a distribution formula that would address a situation in which the authorities that—to be blunt—make the most money from those two additional bands keep that money, and no one else gets it. You can see how that sort of thing would benefit some local authorities more than others. An alternative would be for COSLA and local government to agree a distribution formula in that respect. However, that is not for me to dictate; that would be for them to decide among themselves, and it will not be without its difficulties.

I should say that, unlike the UK Government, which took the money into the centre, we have agreed the principle that the money should be retained by local government, but the issue, then, is how it is retained. In any case, this will not take effect before 1 April 2028, so there is scope and time for local government to discuss those matters and come to some agreement. We will have to see how things develop.

John Mason: On the air departure tax, which has been a long-standing issue, have we got the Highlands and Islands exemption sorted now? I thought that that was a sticking point.

Shona Robison: We have proceeded very carefully on this issue, and we are in discussion with the UK Government on it. I can guarantee that we will maintain a Highlands and Islands exemption, but that will be possible only if we have devolved powers over ADT.

The UK Government has advised that we cannot simply pour the existing air passenger duty exemption into the ADT regime without undertaking a full subsidy control assessment, and the issue that arises then is that exempting international flights from Highlands and Islands airports could raise competition issues, as it would mean international flights being subsidised. Therefore, we have developed a revised Highlands and Islands exemption that will protect Highlands and Islands aviation connectivity and comply with the UK Government's subsidy control regime.

We have written to the local authorities that are impacted; we are going to launch a consultation on the new exemption—this week, in fact; and we will undertake a programme of engagement with the aviation industry and regional stakeholders, particularly the local authorities, on what we are proposing. We want to hear what they have to say on that.

John Mason: Linked to that is the proposal for a tax on private jets. Is there a danger that they will just all head off somewhere else, instead of coming to Prestwick, which I think makes quite a lot of money out of selling them petrol or whatever it is they put in their planes?

Shona Robison: Obviously, the UK Government is looking at this, too. Again, we would want to do this within ADT from 2028-29, so there is time to look at the detail. We think that the rate of the private jet supplement in 2028-29 will be set out alongside the broader ADT rates and bands in the 2027-28 budget.

It is only fair that this contribution be made, given that the carbon emissions per passenger from these flights are greater than those from commercial flights, and that folk pay that additional supplement for the right to be able to use Scottish airports. We are also seeking to engage with the UK Government on having further devolution to address the issue of private jet ghost flights—that is, flights that do not have any passengers. Like the UK Government, we believe that those who operate and own private jets are able to make that additional contribution.

John Mason: I do not disagree with any of that.

My final point is on preventative spending. We have asked whether preventative spending could be separately identified, and I believe that some kind of tagging exercise will be going on, with perhaps a report in the summer.

Shona Robison: Richard, do you want to come in on this?

Richard McCallum: Yes. As part of the overall public service reform strategy, one of the key pillars of the PSR work is prevention and one of the focuses is to do budget tagging. That is work that we are doing across all level 4s of the Scottish Government budget. We are also working with colleagues in local government and in health and social care, so some NHS boards are also involved in that work. Come the 2027-28 budget, we would like to be in a position to have a report in the summer and to see what that identifies in terms of tagging. It will also help to inform some of the decision making.

John Mason: Is that on top of the analysis that we already have? It is not instead of anything that we have already.

Richard McCallum: No, it would be an addition. It would be a full tagging exercise beyond that.

John Mason: That is great. Thank you.

Patrick Harvie (Glasgow) (Green): We are two hours in, so I am inevitably going to cover some of the ground that colleagues have already covered. Several members have talked about local government and I am going to have another stab at it.

The Scottish Government claims that there is a 2 per cent increase in real terms for local government, and local government claims that it is significantly lower than that. It is all very familiar, isn't it? Pretty much every year, in good times or bad, there is a difference of perfectly valid and legitimate interpretation between central and local government about whether the settlement is generous, whether it could be better or whether it should be challenged.

Can I have a conversation that moves beyond that familiar debate about whether it is generous—there is inevitably going to be a difference of views—and focuses more on the consequences and the adequacy of the settlement to meet the need that exists at local government level. Most of us are aware that Scottish Government finances have been under significant pressure for a long time. Do you accept that, whether or not you have done as much as you can, local government finances are now under severe pressure?

Shona Robison: I accept that, because all the things that we have talked about previously—pressures, demographics and pay—require all our public services to transform the way in which they do things to meet those challenges. Local government is no exception to that.

One of the reasons why I have protected the general revenue grant and the £253 million is that local government will say that, in order to transform and do things differently, it needs maximum flexibility rather than ring-fenced funds. We have baselined a lot of funding to remove ring fencing, and we have put that money into general revenue to give maximum flexibility.

We have to have conversations about shared services, and some parts of local government are already having those conversations. We are looking at corporate services, sharing services and the removal of boundaries across the public sector. We talked earlier about public bodies and how there will be fewer of them and they will look different.

Local government also needs to look at how it delivers its services. The three Ayrshire councils are in advanced discussions about how they can share more services, particularly some back-office functions. I am hopeful that other local authorities will likewise look at how they can work beyond the boundaries of their constituent parts.

We also need to look at digital roll-out in local government. Again, some local authorities are quite far down the road on automation and the way in which the public access services, but others are not so much.

Patrick Harvie: I suggest that the situation goes significantly beyond what you are describing there. There are always ways in which parts of the public sector can improve what they do, whether they be administrative, technological or anything else. It is a bit like preventative spending—we have to spend a bit of money up front to make some of those changes. We do not simply spend less money by doing things differently. Quite often, we spend more in the short term by making those changes. The situation that councils are facing now surely means that some of their core statutory duties are at fundamental risk. Have you had warnings about that from COSLA or from anyone else?

Shona Robison: I will bring Ellen Leaver in to say more, but we have regular discussions with COSLA and with individual local authorities. For a number of years, we have ensured that we have a clear picture of any individual local authorities that are in more difficult situations than others. We have some very small local authorities and, without getting into the reasons why local authority boundaries are as they are, a small number of authorities have council tax bases that make it very challenging indeed to provide the range of services that are required by an authority of their size. We have been working with some of those authorities to look at how they might share services with neighbouring authorities and we have supported some authorities with ambitious change programmes. Local authorities are not all in the same position. Some can make economies of scale.

Patrick Harvie: I would like you to answer my specific question. Have there been warnings from any local authorities, or from other experts in local government, to say that core statutory responsibilities are now under threat?

Shona Robison: I will bring Ellen Leaver in to talk about the communication that she has had with COSLA about that.

Ellen Leaver: As the cabinet secretary said, we have regular communication from individual councils as well as from COSLA and there is also regular reporting by the Accounts Commission in the form of best value reports as well as its thematic and annual publications, all of which contain a wealth of information and data. We also have individual discussions and follow-up conversations that enable us to understand what is happening and feed into the decisions that are being made as part of that on-going dialogue.

I have been working on local government for four years and there have been conversations throughout that period about the challenges in delivering statutory services, as well as preventative or more discretionary services. That has been consistent and has fed into the conversations about reform and about looking at how some services are delivered. We are working with local government, other public bodies and partners to explore using invest to save funding and the opportunities for transforming certain areas, such as food law delivery, that have existed as they are for decades. We are looking at how to reform and change the way in which some services are delivered in a digital age and in a landscape where the skills pipeline is not bringing qualified people through and we need to look at things differently. All of that is being discussed and collaborated on so that we can transform what we do, as the cabinet secretary set out.

Patrick Harvie: The cabinet secretary spoke about some of the pressures that differ for different local authorities and drew particular attention to smaller local authorities where scale is an issue, but I will mention an issue that is facing some of our biggest authorities. I think that you are already aware of the extreme pressures on homelessness services. Those pressures result partly from progressive legislation on homelessness, which most of us in this Parliament strongly support, but also from changes in the asylum system that are beyond the control of local government, this Parliament and your Government. As a result of a combination of those factors, some local authorities are seeing unprecedented levels of pressure that will not only make politically unconscionable cuts to discretionary spending inevitable but threaten core statutory duties, for councils and for integration joint boards and health and social care services.

Earlier, you talked about the spending review and the idea that, as the UK Government approaches the next election, it will not want to do politically unpopular things that cut local government. Are you not in exactly the same situation right now? Your party is in administration in Scotland and in several significant councils that are facing those severe pressures. Is there not clearly a need for some way of addressing those specific, extreme pressures that have arisen, the reasons for which may be outwith council control or your control but which are going to make politically unconscionable choices inevitable at local government level in the immediate future?

10:45

Shona Robison: I am well aware of the issues that you are referring to. First, as you have alluded to, all roads lead to the Home Office on that issue in relation to the policy—

Patrick Harvie: Not that finger pointing takes us anywhere.

Shona Robison: No—I will come to that in a second. It is important to set out why this has happened. It has not happened by accident; there is an inadequate level of support from the Home Office for the number of people who are being supported by Glasgow in particular.

Patrick Harvie: What do we do about it?

Shona Robison: What is important here is that we are in discussions with Glasgow about those matters. I want to make sure that we do not enable those who would seek to exploit the position to do so. It is important that those discussions are enabled to happen, and we are having them directly with colleagues in Glasgow—at both official and political levels—about how we manage a very challenging situation. I will be happy to keep the member appraised of the outcomes of those discussions.

However, we cannot let the Home Office off the hook for the position going forward. The Home Office must acknowledge that what it is creating is not sustainable. We are jointly lobbying the Home Office about those matters.

Patrick Harvie: I agree with you about where responsibility for the cause of the problem lies, but the responsibility for how we deal with the problem sits here, in the Scottish Government and the Scottish Parliament and at local government level. I am grateful for the offer to keep us informed. I hope that you will be willing to do that not only for the committee but for Glasgow MSPs on a cross-party basis.

I add one other comment. There was discussion earlier about culture funding. I am in the happy position that I will be sitting at this table on Thursday morning too, with Angus Robertson—lucky me—and, no doubt, some of these questions will be put to him. Will you have a conversation with the Cabinet Secretary for Constitution, External Affairs and Culture about the impact on the national performing companies and the issues that were discussed earlier? It is not only about whether there is an uplift for them in the coming financial year—currently, there is not, and I would like to see that change if it is at all possible—but about the clarity about what they can expect in the future.

At the moment, the national performing companies are being told that they may see an uplift in the coming years. That is so vague and non-specific that they will be forced to make changes that will result in the loss of cultural infrastructure for Scotland. Even if they only had clarity about the trajectory that they can expect to be on, they might not have to make damaging choices. Will you commit to having that conversation with the cabinet secretary for culture and seeing what level of clarity can be provided that will prevent the companies from being forced to make damaging decisions?

Shona Robison: Of course. I will make sure that the cabinet secretary for culture is aware of the discussion that has taken place this morning about those matters, as we will do for any issues that have come up for other portfolios. I am sure that you will make the most of the opportunity on Thursday morning to address those issues in more detail.

Patrick Harvie: Thank you.

The Convener: Cabinet secretary, you will be delighted to know that we have only 10 minutes left. I intend to use those 10 minutes. [*Laughter*.]

I will go back to council tax issues and local government funding. There is an issue in relation to local government funding that we have not touched on and which I want to cover. You will be aware of the Local Government Information Unit report on the survey sent to chief executives, council leaders and senior financial officers that found that every respondent intends to reduce spending on services and increase council tax in 2026-27.

The report concludes:

> "The scale of council tax increases continues to be significant. Not only is every council planning to raise council tax, every council is planning to raise it by at least 5%. Over a fifth plan to raise council tax by over 10%."

Surely that is a real concern for the Government.

In previous years, there was the legendary Derek Mackay sofa. The Government would say, "This is all our money. It's all committed. Blah, blah, blah. We don't have anything else." Then Patrick Harvie and his colleagues would negotiate and—lo and behold—£100 million would come out from the back of Derek's sofa, and local government would have some amelioration for its budget. That tended to be an annual event for some time. What room does the Scottish Government have to manoeuvre on such matters in the coming weeks?

Shona Robison: I have taken the view that it was important to set out the funding in the draft budget. Is there a wad of cash somewhere that has not been allocated? No.

One reason why it was important to engage with the Opposition in the lead-up to the draft budget was to try to reflect the key things that were asked for in it—although not everybody's asks will be reflected and we cannot meet all the demand. I have tried to do that, particularly with what the Greens and the Liberal Democrats asked for. Those elements are all reflected in the draft budget.

We have engaged with local government on the potential for delivering complex care in a different way. One problem for health and social care partnerships is unforeseen high-tariff packages coming in, which can be costly for health and social care partnerships. They can slow down the process of the person coming out of hospital, because it is known that the package will disrupt the assumptions that have been made. Sometimes, those people do not have the best experience of getting back into the community, and they do not always get the package that they require, given their complexities.

Therefore, Neil Gray has embarked on discussing with COSLA whether we could deliver complex care in a different way, where the Scottish Government supports a split with local government on some of those high-tariff packages. The criteria would need to be set out very clearly—a high bar would be needed—but we could support the costs on an agreed split to avoid those disruptive, eye-wateringly high-tariff packages.

Most importantly, that would be better for the people involved, because they could be supported to get home, into the community, or into an appropriate setting more quickly. Delays in that area are some of the longest delays in hospital. There is more work to be done, but the principle is that we could support that.

This is maybe an answer that you were not expecting: on whether there is a wheen of money in a sofa somewhere, the answer is no, but we are talking to local government about supporting them in the social care space in a way that can avoid the expensive packages all falling on local government.

The Convener: We heard about capital reducing in real terms in future years due to reductions in allocations from Westminster and about significant boosts to the housing budget. However, there is a 14.7 per cent reduction in local government's core capital budget.

There has been a lot of noise in the chamber about the A96 and the A9—I think the A9 will get £200 million next year. That would pay for a lot of potholes that could be fixed by local government, frankly—if local government was not seeing that 14.7 per cent reduction in its capital.

I am wondering what the Government's thinking is there, as that is a significant reduction in a year.

Shona Robison: I will bring in Ellen Leaver, as that also relates to the position on capital in 2025-26.

Ellen Leaver: In the current year, we have provided a £40 million climate change emergency fund through capital, on a one-off basis through ScotWind funding. We have continued that, for a second one-off year in 2026-27, at a lower level of £20 million, but that does not continue in the forward forecast on the spending review. Those are one-off sources of funding, and we are tapering that climate change funding.

There is also a reprofiling of the flood prevention money. In year, we identified four flexibilities to use around pay money. There was a £75 million pot of funding in the capital space for flood prevention works, which was not going to be spent in year. We have reprofiled that in this financial year to support flexibilities to meet the pay costs in year. That having been identified, a joint working group between local government and Scottish Government considered the profile of flood prevention funding against planned spend over the coming years. We have reprofiled that capital in 2026-27 and into future years.

The tapering of the capital costs is therefore the reduction in the one-off funding for climate change and the reprofiling of the flood prevention funding against planned spend—with funding otherwise remaining flat. You are seeing the change over the spending review period resulting from those two changes in particular.

The Convener: I should say that I welcome the £38.4 million that went into Millport's flood prevention. Indeed, there is another sum of £3.97 million coming up.

Shona Robison: In recognition of the capital constraints, I have been keen to reach what I guess you could call accelerator deals with individual local authorities on infrastructure priorities. We have been quite successful in doing that in the past. We have a very successful example in Granton, here in Edinburgh, and we are considering working with West Lothian Council on Winchburgh station. We are considering the three island authorities' essential infrastructure investment.

It is essentially by using local government borrowing that we will provide support, with other funding streams coming into play, and build a package to help address the constraints in capital by growing the pot in those ways. I have been clear with COSLA that I am open to considering what else we can do in that space.

The Convener: So, for instance, prudential borrowing might be able to help ensure that we maintain the spend at capital level.

Shona Robison: Yes, essentially—with some private investment, too. It is about trying to grow the pots.

The Convener: It is really helpful to get under some of the figures through answers like that. That was a very helpful response.

I hope that I will get a helpful response to this next question. SPICe has said:

> "The Climate Action and Energy portfolio sees the largest percentage decline of all the portfolios (19.0% in real terms)."

Dealing with the climate emergency is obviously one of the Scottish Government's priorities, so I wonder if you can explain why it has had such a significant decline—or reduction, I should say.

Shona Robison: I will bring in Richard McCallum on the detail but, as I said in my opening statement, we have the overall position of what we call the taxonomy of the climate-moving elements of the budget. That level has gone up—it is above £5 billion now and it covers, across government, the areas that will make the difference in terms of the investment.

I invite Richard McCallum to provide a bit more detail.

Richard McCallum: I will make a couple of points. This comes back to some of our earlier conversation about the spending review period.

Over the spending review period, the climate and energy spending plans are broadly flat, at least in resource terms, while the capital position changes slightly—there are a couple of peaks and troughs over the spending review period.

This perhaps links back to some points that others have raised earlier. Under the portfolio efficiency and reform plans, the savings that are made by portfolios will not be taken back by the centre; they are to be maintained with the portfolios.

Although there is a flat-cash resource settlement at the moment, that position will be subject to budget reviews each year. The encouragement for those in individual portfolios is that, the more money they can save through efficiency and reform, the more money can be reinvested in that portfolio.

11:00

The Convener: That is a welcome development. I appreciate that there is a real incentive to save money if you know that you will get to keep it and spend it elsewhere in your portfolio, instead of it being pinched by someone else.

I am almost done. We suggested in our pre-budget scrutiny report that

"the Scottish Government undertakes a review of the extent to which the level of social security assistance provided supports economic activity",

but the dedicated review that we asked for does not seem to be taking place. Has the Government done any work, or does it plan to do any work, to see which social security policy has had the greatest impact in reducing poverty and getting people back into productive employment?

Shona Robison: From analysis of the tackling child poverty delivery plans, we know that the policy that has resulted in the biggest move towards meeting our statutory targets on child poverty is the Scottish child payment—it has resulted in the biggest shift by a country mile.

The reason why Scotland is the only part of the UK where child poverty rates are falling is, primarily, the Scottish child payment. That is why we are increasing the payment by inflation, and we are focusing on the under-ones because we know that there are additional costs for them.

The chief economist did an analysis of benefit spend in local communities, which I am sure I have referred to previously. There is an economic impact on local shops and services in communities, because people tend to spend locally.

A lot of rigorous work has been done to find out which of the employability programmes work. It can take a while for someone who is particularly far from the labour market to get into work, and there is sometimes a higher drop-out rate because of the challenges.

We are focusing on wraparound support or what the First Minister calls whole-family support. That includes support for employability not just in relation to skills and training but in relation to childcare and transport. What are the barriers that prevent someone from successfully getting a job and then maintaining that job, particularly in the first few months? We are trying to provide more bespoke support.

The programme that the colleges will run will be a really good addition. Colleges Scotland provided a very impressive and persuasive proposal for supporting people back into work. Some people will find a college a less intimidating environment in which to take steps back into work. Over and above the £70 million of funding, £8 million is being provided to colleges to deliver that programme, which will be analysed and evaluated.

A lot of work is being done in this space, and it is important to keep it all under review so that we know what is working best and what is perhaps not working so well.

The Convener: When you were engaging with Craig Hoy's questions on income tax, you said that people will be £32 a year better off. Why does the Government talk only about income tax? Why does it never say that people are, on average, £700 a year better off as a result of lower council tax and water bills? Why does it never talk about the overall tax burden, given that talking only about income tax is somewhat one-dimensional?

Shona Robison: We do. One reason why I referred to the average figure of £480 for those in the bottom half of the income spread is that that figure includes social security support as well as the benefit of lower income tax.

However, you are right to point to people in Scotland having lower water and council tax bills. Earlier, we talked about the position on council tax, but council tax for an average band D property in Scotland is still markedly lower than it would be south of the border. Therefore, we have to look at things in the round.

In addition, if you have kids at university, you know the difference—my goodness. South of the border, people are now paying more than £10,000 in tuition fees.

The Convener: The figure is £9,790.

Shona Robison: Oh, I slightly exaggerated—families have to pay almost £10,000 for each child.

That is not the case in Scotland. That is part of the social contract.

We need to consider things in the round. I see parties proposing that we embark on billions of pounds of tax cuts without having any plan for where the money will come from. The money has to come from somewhere, and it has to come from somewhere from 1 April. It cannot be something that might happen further down the line; parties need to set out in black and white where the money will come from. Such proposals have been short in coming.

The Convener: I realise that you have another engagement at 11.30, and we have other items on our agenda, so I will call a halt to the evidence session. However, before we finish, I will give you a final opportunity to emphasise anything that you feel we have not touched on.

Shona Robison: I think that we have covered a lot of areas. We will follow up with the additional information that I have promised to provide to the committee as soon as we can. I thank committee members for their time.

The Convener: Thank you very much. It has been a long initial evidence session, so I will suspend the meeting before our next agenda item.

11:06

Meeting suspended.

11:16

On resuming—

Scottish Fiscal Commission

The Convener: Item 2 is our annual evidence session with representatives of the Scottish Fiscal Commission on how the commission fulfils its functions. We are joined by Professor Graeme Roy, chair—this is the third time in the past week; people are starting to talk—John Ireland, chief executive; and Sue Warden, head of strategy, governance and corporate services. Good morning.

We will move straight to questions. How has the work of the Scottish Fiscal Commission evolved over the past five years?

Professor Graeme Roy (Scottish Fiscal Commission): Thank you for giving us the chance to come along and talk about the work that we do. I will highlight several ways in which it has evolved. First, we have made significant advancements in our on-going analytical capacity as more powers have come in. We have updated our modelling and improved the modelling process that we do, and that continues to be developed on an on-going basis.

The other big area that we have focused our thinking on is how we communicate and how we engage more broadly with stakeholders, which is an issue that was picked up in the Organisation for Economic Co-operation and Development's report. We are keen to focus on and develop our approach in that regard, so we are doing things such as providing bite-sized insights to explain the Scottish budget and going out and about much more to engage with key stakeholders and talk about key budget issues. We have also recruited new commissioners who have that as a key part of their remit. That has been very positive.

That has moved us into some interesting areas, such as undertaking greater scrutiny of spending issues and looking at fiscal sustainability and the long-term challenges that Scotland's public finances face.

The Convener: Thank you. John, in the chief executive's introduction to the annual report and accounts, you said:

> "Through the year there have also been some significant challenges for a very small organisation to deal with."

Do you want to touch on some of those?

John Ireland (Scottish Fiscal Commission): The challenges for small organisations such as the Fiscal Commission tend to be in two areas, the first of which is staff movements. We have a staff of about 28. The bulk of those people are analysts, who all have quite specialised skills. Turnover is incredibly healthy, because it means that new people come in and we get exposure to new skills, which is great.

However, we can lose key people at difficult times. Losing an analyst in the run-up to a budget or a fiscal event can be difficult, because the recruitment period is about three months; sometimes, it is even longer. Turnover of staff is one issue. We need to ensure that we have a good complement of people, especially as we go into the budget forecast.

The other challenge tends to be around the more corporate side. For example, the Scottish Government's move from one piece of software to manage all its finances and human resources to the Oracle system was incredibly trying because we are a small organisation and do not have the number of staff that other organisations have to manage that shift and the time that is required for responses to such Government changes is dramatic. We did not have much say in it.

The Convener: You say in your annual report:

"The Commission's corporate systems are not sufficient to deliver its work (financial systems, IT, shared services, and governance)"

and

"the risk score is expected to remain high."

John Ireland: Yes. That comes from the fact that we rely on the Scottish Government for the bulk of our shared services. That decision was made at the Government's encouragement when we were first set up. Those Scottish Government systems have been creaky for a number of years and the Government took a sensible decision to replace a lot of the infrastructure behind them but that takes a lot of work and the risks associated with that are still not clear in the sense that we do not understand exactly how those systems will evolve.

The other issue is financial planning. The Government says that it will move over to a principle of full cost recovery but it cannot tell us what that will look like over the next few years. Each year, we ask the Government for our funding for the next three years. We have been given only sketchy ideas about what the costs will be next year and no idea at all about the following two years. That can be difficult, particularly given the scale of some of the changes involved.

The Convener: However, you have no reason to suggest that the existing funding will not continue at least.

John Ireland: I am sorry?

The Convener: Even if funding was not to change dramatically upwards, there is no indication that it might decrease by any measure, is there?

John Ireland: No. We just need to ensure that we can do effective planning and that, when we make our asks, we have enough funding in place to cover the increased costs.

The Convener: You said:

"This risk has remained amber, due to risks with our relationship with the Scottish Government."

John Ireland: That reflected a point at which there was a very large turnover of staff within the exchequer strategy directorate.

The Convener: You talk about it being red and amber throughout the year.

John Ireland: Yes. I think that it was because of those changes in staffing. It was not because the relationships were poor or anything like that. Basically, within a short space, the three deputy directors turned over. The Government has been good. It filled those posts quickly and with good people, so that turned out not to be the risk that it could have been but, in essence, that is what those markers were.

The Convener: Professor Roy, the annual report talks about the work that you do giving

"media interviews, briefings, and articles"

and that you

"respond swiftly to journalists".

It also talks about publishing reports on the website. The SFC is also involved in X and LinkedIn and is now on Bluesky. You

"engage once a month with … subscribers and, separately media subscribers"

and you do in-person breakfast events—I was at one of those last week with you. What else, if anything, can be done to boost the profile of the work that the SFC does?

Professor Roy: There are two parts that. One is doing more of what we do. We explicitly added to the job description for our new commissioners an ability to communicate and engage. That was not in the role description in the past and our two new commissioners bring us more stakeholder networks than we had in the past, so there is a chance for us to go out and communicate much more.

Some of the answer is about upscaling what we did in the past. The second part, of which we are very conscious, relates to the potential for a significant number of new MSPs to come into the next session of the Parliament after the election in May. We are speaking to Parliament officials about what we can do to help any induction process for new MSPs so that they have our support in getting up to speed with the complexities of the fiscal framework and how the budget process works. That will be one of our top priorities for next year.

The Convener: Another priority might be to get the name and number of a good plumber, because I noticed that your report highlighted

"Boiler failure affecting the working environment for all of 2024-25."

How long does it take to get a boiler fixed? When mine crashed, I got it sorted within 24 hours.

John Ireland: We rely on the Scottish Government to maintain the infrastructure of our office The boiler issue arose when the Government took the view that it did not want to replace one gas boiler with another because of its net zero goals, and that it wanted to ensure that we had a low-emission electric boiler instead. The difficulty came from the need to strengthen the mains electricity supply, which took an enormous amount of time.

The Convener: Unbelievable.

John Ireland: That has successfully been done, we now have a new boiler and the staff are happy that it is nice and warm.

The Convener: The guy who was coming to fix the boiler in my office didnae turn up last week, but that is another issue.

Other risks discussed include the fact that

"Delays to provision of two policies reduced the time we had to quality assure our forecasts and prepare our report. A third policy was provided too late to be included and required a separate publication to be produced."

There is an element of frustration in that, so can you tell us about it?

Professor Roy: We touched on that last year during the budget process. It relates to the late notification of policies in the run-up to the budget in December 2024—I need to get my years right. There was late notification in 2024 and you will recall that we did not put the abolition of the two-child limit into our main document but instead did an update in January.

We touched on that in evidence then. It is important to have deadlines and timelines and it is important for the Government to stick to those. It was disappointing that the Government did not do so that year, but the most recent budget process was far better and all the key deadlines were met.

The Convener: That is good to know, but you have said that the

"Delayed sign-off of our indicative funding for 2026-27 and 2027-28"

is another potential risk.

Professor Roy: Do you mean funding for the Fiscal Commission itself?

The Convener: Yes.

John Ireland: That was last financial year and comes from the annual report. There was some delay in getting the cabinet secretary's agreement to that, probably because the Minister for Public Finance wanted to spend some time checking what was going on within the Fiscal Commission as part of the public service reform process. This year, when there has been a spending review, the process has been much smoother. We have funding for the first year, which is shown in the budget document, and the spending review document shows the funding for the next two years. We already have that indication from the Government this year and it has been a much smoother process.

The Convener: There is a wee bit here about the Oracle cloud. You say:

"The reactive nature of the stabilisation activity required has delayed any longer-term preparations to support future service offers, optimisation of the platform or participation in further phases of the shared services programme."

How long has that been delayed by and what difficulties does that impose on your organisation?

Susie Warden (Scottish Fiscal Commission): I think that that is from the annual report. The roll-out of Oracle across the Scottish Government and the other clients that use it was delayed by six months, to October, which meant that the focus was on trying to get it vaguely fit for purpose on the go-live date, instead of trying to generate any extra value. Theoretically, it can do whizzy extra reports, but the Government was just trying to get it to do the absolute basics so that everything was ticking over and embedded before they tried to generate any extra value from the new system.

The Convener: You also said, in paragraph 171:

"I note that the Scottish Government's Internal Audit Directorate is '...unable to comment on robustness of the control system within Oracle at this point'."

Susie Warden: Yes. They were not able to give us full assurance on that. We are very small, with quite simple transactions—and not many of them—so we use a separate Excel spreadsheet to mirror Oracle and to give us confidence that, even if we are not sure whether Oracle is working, we have something to check it against. That is why John Ireland, as the accountable officer, was able to give assurance that, although internal audit could not fully sign off on the Oracle systems, we knew, as an organisation, that the numbers that we were presenting were accurate.

11:30

The Convener: I understand from looking at the salary scales that you have partially retired, John. Is that right?

John Ireland: That is correct, and I am enjoying my four days a week. [*Laughter*.]

The Convener: Okay. You have again come in under budget, which is obviously excellent. What resource constraints do you feel that there are on the organisation, and what work would you like to do if some of those constraints were lifted? Can you give us an example of how additional funding—and how much funding, if you could possibly put a figure on it—would allow the SFC to develop further?

Professor Roy: I can make a broad comment, and then I will let John Ireland talk about operations and other things.

I guess that this relates to some of the commentary around the OECD review that we had, and some of the stuff in our report about the areas that we are moving into. Most of our work and focus has been very much on taxation, social security and the overall funding position, but, pushed in large part by the committee, we have been doing much more on the spending elements and developing our scrutiny of the spending profiles and trajectories. That is the big area where we see potential for further work in future.

John, do you want to talk about the specifics of this?

John Ireland: Indeed. It is, as Graeme has suggested, very much related to that work on spending. In the multiyear ask that we put into the Government, we estimated that the additional work on spending that we wanted to do would cost about £184,000 in the next financial year, and £190,000 in the following. However, we were able to absorb about £87,000 of the 2026-27 costs and about £116,000 of the 2027-28 costs through efficiency savings across the commission, and we then asked the Government for the amount of money that we could not save, which was roughly equal to the cost of one member of staff. The Government has been very good and has given us that money in the allocations that it has just published.

The Convener: But you are looking to do more as an organisation.

John Ireland: Yes.

The Convener: So are discussions on-going with ministers on how you can grow over the next one to five years? Assuming the committee approves your reappointment, Professor Roy, you will have another four years of this.

Professor Roy: Do you want to talk about where we are with the conversation, John? I think in principle—

The Convener: I should say that the decision is on a knife edge, so do not take anything for granted.

Professor Roy: We are, in principle, very conscious that, as far as any strategy is concerned, we have our core functions that we need to fulfil and deliver. However, we are also demand led, and we do look at where people think our focus should be. I am thinking of, for example, the push to do more about communications and explaining things, and the support for that, which is an area that we have focused on. Similarly, spending is an area in which not only the committee has a particular interest but our stakeholders, too, are interested in unpicking certain elements, and it is an area that we can certainly grow into.

The Convener: Some of the communication that you have just talked about might tie in with the programme of financial literacy that we hope that the Parliament will introduce in the autumn, when the new MSPs have bedded in somewhat.

Professor Roy: Very much so.

The Convener: This will be my last question, and it is, I think, a very difficult one for any individual or organisation to answer. What weaknesses, if any, are there in the organisation, and how are they being addressed?

Professor Roy: Do you want to talk about this from a more operational point of view, John? I can talk about it from a strategic perspective.

Building on John Ireland's previous point, I would say that we are a small but, I think, very good organisation, and we do lots of great work. However, we are dependent on the ability to amplify, and get engagement on, the work that we do. We know that there are challenges with fiscal literacy, and with that sort of knowledge and understanding at different levels. However, I think that that is not so much a weakness, as an on-going challenge, given the nature of the fiscal framework.

The Convener: Yes. Weakness is probably not the right word—apologies for that.

Professor Roy: But it is a really important question. Indeed, we touched on some of this last week, and I know Ms Thomson is sometimes frustrated about it—

The Convener: She is up next, by the way.

Professor Roy: We focus a lot on understanding, say, the mechanics of the fiscal framework, but that squeezes out other big questions such as what this all means for the economy, public services and everything else. It is an on-going challenge for us to fulfil our really important role of delving into the detail and ensuring that it is all clear, while also being able to lift things up a level and say, "This is what it means for the people of Scotland, for public services and so on." Indeed, the OECD pushed us quite strongly on the issue of how we make all of this a bit more real and tangible for people.

We are already thinking about things such as our insight reports, the videos and going out and engaging with people to turn some of the more technical things into things that are much more accessible.

John Ireland: We have already touched on some of the things that keep me awake at night—

The Convener: Yes, the boiler.

John Ireland: —as weaknesses, or just as worries. There are issues around staffing. We have very good staff, but we want to keep them there. We want to make it an attractive place to work—and make sure that it is warm—and give them interesting work to do. We have no shortage of people who want to work at the commission. The response to our recent recruitment—

The Convener: That was incredible. You had hundreds of applicants.

John Ireland: Yes. It was really good and very satisfying. At the same time, however, keeping people there once they sign up is a real issue. We need to make sure that the work is interesting.

A particular thing that keeps me awake at night is making sure that we have the right people there for the budget process, and that they are not going to go off sick or want to leave and get a new job, because we need to stick to timetables.

Those are the sorts of things. It is very operational, in that sense.

The Convener: Yes, and a lot of it is not within your individual control. It is more a question of "Events, dear boy."

We will move on. Michelle Thomson will be the first member of the committee to come in, to be followed by Michael Marra.

Michelle Thomson: Good morning, and thank you for joining us. I will pick up on the first theme that the convener opened up. As you probably know, I try to do as much as I can to support the Scottish Fiscal Commission on the likes of LinkedIn by adding what I hope are helpful comments that will direct some traffic to you. However, while I recognise the work that you have clearly done to big up your messages and get them out there—the wee graphs that you have put up are super—the numbers are still relatively low. You still have only 835 followers on LinkedIn.

Looking at the posts, I see that there has been a bit of a burst of activity, with roughly one post per week over the past few months, but there was nothing for five months before that—there were no articles or documents. You could easily get one of your young people to write about their impressions—something along the lines of, "You may think the Fiscal Commission is about this, but this is what I've found." Your documents could easily be put on there, too. If you know how to use it, LinkedIn is a very effective tool for driving traffic.

We have talked about this before; I appreciate that you have a limited budget, but if you were a business organisation, you would be doing proper work on branding and marketing. I watched the videos and it occurred to me that, although I strongly approve of your new commissioners, who are clearly already adding a great deal of value, it does not necessarily follow that the presentation style of the videos will bring people in. The challenge is how to make people care about the importance of your work.

Have you thought about that? With the young people you are getting in, there are bound to be some very creative individuals who just know this stuff because they are in a different generation. Obviously, oversight will be needed, but have you thought about how you might be able to cheaply and effectively get down with da yoof, if you like? [*Laughter*.]

Professor Roy: We might look for some tips. The Mars bar example might be a good one to follow.

You are entirely right. We are open to speaking to people about what we can do around that, and your input is really helpful. There is always a trade-off for us in how much we talk at key points in time. One reason why there is sometimes a gap is that there are periods in which lots of private conversations go on with the Government as it is working on its budgets. Those are quiet periods. However, it is important that we are clear to people about why that happens.

We have to be careful, in that we are there as the independent authority to support the budget process. We want to try to improve things and to encourage more people to engage, but the last thing that we want to do is to generate headlines for the wrong reasons. That might be a bit of risk aversion on my part, but we need to strike a careful balance there.

John Ireland might want to talk about some of the things that we are doing. We have recruited people who will really help with things such as the short insights stuff that we are doing.

John Ireland: In the OECD review, it came through that engagement is key. The OECD wanted to push us down the route of having a specialised communications officer. We took a different decision—in the spirit of what you are saying—which was to get the analytical staff involved. One of the key appointments was Ross Burnside, who used to work in the Scottish Parliament.

Ross has been driving the new insights blogs. Until the pre-election period starts, we have a programme to publish those more regularly. The drafting of those is done internally by staff, and some of the younger people are involved. We have some insights coming out on climate in the next few weeks, which have been written by relatively young people who have been doing work on that. Obviously, the commissioners own that and are behind the final publication. I think that the insights are starting to do that.

It is interesting that you mentioned LinkedIn. We tried to think about social media, and I naively assumed that things such as Instagram and TikTok were where we ought to go. However, we did some work and looked at where younger people get their news input and, surprisingly, we found that it comes through Facebook. With the non-established media, the primary source for young and older people is Facebook. We therefore decided to start on Facebook as well. That account does not have many followers yet, but we will be working on that and trying to boost it.

We are trying to take social media seriously. We are doing work on videos. You looked at the more recent ones. One of our younger analysts has spent a lot of time thinking about how we create them. You will have seen the improvement in quality and in technical terms. We do not film on iPhones any more—we have a camera. They are all done in Governor's house, so everything matches up in that way. We have started to use some slightly more interesting graphics in those as well.

It is a journey. You are right that getting the staff involved more directly in front of the camera could be good. We did some of that when we were doing recruitment. We have a couple of recruitment videos in which staff talk about working at the commission, and the training videos on the budget that we did about a year ago are presented by staff members. We are starting to do that, but it is slow.

We must recognise that, when we are speaking at budget time, the voice has to be that of the commissioners. However, there are other things that we can get the staff involved in, and we hope to do so.

Michelle Thomson: The other area that I want to ask about is your report "Fiscal Sustainability Perspectives: Climate Change". As you will know, I have consistently asked people how well they are across that, because it seems to me to be utterly fundamental to read it and understand the real challenges ahead. I was shocked to find that the convener of the Net Zero, Energy and Transport Committee did not know about it. The Economy and Fair Work Committee, of which I am the deputy convener, is looking at the forthcoming climate change plan, and I have been asking all our witnesses about your report. I am disappointed to say that, so far, nobody has admitted to either being aware of the report or having read it. I have said to them, "You need to look at this." Okay, it was published in March 2024, but the fundamental principles absolutely apply.

I know that you did a session straight after publishing that report, but there would be great merit in finding ways to keep reminding people about it. I have been surprised by how few people know about it. I do not see the point in our developing plans if we do not understand structurally what the challenges are, and I think that your report points out those challenges.

Professor Roy: That is disappointing. We write to committees every time we publish something such as "Fiscal Sustainability Perspectives: Climate Change". We write to the convener of the Net Zero, Energy and Transport Committee to say, "This is our report. We're happy to come and give evidence." I gave evidence to that committee as part of its scrutiny of the climate change plan. Similarly, with the Economy and Fair Work Committee, when we publish our budget reports with the latest forecast, we write to the committee to say, "This is our report. We're more than happy to come and give evidence."

I appreciate that committees have an exceptionally busy time and that things are constrained. We can keep writing and knocking on the door but, ultimately, the committees themselves and parliamentarians more broadly have to embrace and take an interest in the subject. We are more than happy to go along and speak to any committee at any time.

11:45

Michelle Thomson: As we come up to a new parliamentary session, we should think about how we can get the information in that report—and whatever variants you issue, because you may choose to update it—to people, because it is so fundamental. I am playing my part, but it is probably not enough to tell people only once.

Professor Roy: I am more than happy to write and say, "Following that evidence session, we know there's an interest in this. We're happy to come along and speak about it."

John Ireland: We are about to write to the Net Zero, Energy and Transport Committee again about the climate change plan and the information that we think that it should contain on costs.

There is another aspect here—as well as the parliamentary part, there is the engagement with the outside world. We worked closely with Stop Climate Chaos and Mike Robinson on that report a couple of years ago, and they were kind enough to put out some media releases saying that they found the work interesting. We need to develop that sort of thing, too. It was unusual for us to move outside the narrow fiscal stakeholders to the wider groups that work on climate issues.

The Convener: You will always be welcome at our committee.

Michael Marra: I am looking forward to the video that will represent the economic performance gap in confectionery terms. [*Laughter*.]

Liz Smith: You will be starring in it.

Michael Marra: Definitely not.

John, you mentioned the issue of talent recruitment and retention. I recently listened to the Fraser of Allander Institute's podcast about its anniversary. It seems that the pool of people who circulate around fiscal matters and economics in Scotland is a very small one—we see them regularly at this table. What is the SFC doing to support talent—people who are developing expertise in that space—to come through?

John Ireland: We do that in several ways, because it is fundamental to us. I said earlier that we get a large number of applications for our analytical posts—even junior, fixed-term appointments attract a lot of interest—so it is clear that there is some sort of flow-through.

We work with universities on that. We ask the younger analysts who are in the same age range to go along to the events that universities organise on careers. There is an intern programme that is based at the Fraser of Allander Institute but which is Scotland-wide, and we regularly employ one or two summer interns: we come up with a topic, the students come and work for us for six weeks and, at the end, they make a presentation to us on the topic. Often, that feeds into our analytical programme. We try to encourage people that way, by giving them a taste of working at the commission.

We do similar things with dissertation topics for masters students—again, there is a Scotland-wide network for which we contribute topics, and we do light supervision alongside the academic supervisor. That goes on as well.

At a slightly higher level, we have fixed-term appointments, which are very good for people who have just graduated or who have been in work for a couple of years. Those appointments provide the ability to work for us for a year or so and get experience. For us, that is really good, because we see them for a short time and we can encourage them to apply for permanent posts. We have a good track record of converting fixed-term appointments into permanent posts. That is another thing that we do at that end.

Finally, we are very open to secondments. Those are for people who have a bit more experience. Recently, one of the Fraser of Allander Institute's permanent staff was seconded to us for a year to work on macroeconomic issues. We currently have someone who is on secondment from Audit Scotland, to cover a maternity leave. They are helping out on fiscal sustainability. That is a good way of bringing different people in and exposing them to the commission. I hope that, when they go back, they say pleasant things about us and encourage other people to come to work for us.

Michael Marra: Professor Roy, is there more that could be done to support the talent pool?

Professor Roy: It comes back partly to the conversation about how we engage and get more people interested in these issues. Having organisations such as the Fraser of Allander Institute and our institution to generate more interest helps with that. We need to be clear about what we do, what the Fraser of Allander Institute does and what other academics do.

In Scotland more broadly, there is a genuine challenge with regard to how we can engage academics and think tanks with such issues. The think tank community comes forward with fewer ideas and innovations than we would like it to. Similarly, the academic community engages less with such matters than we would like.

We play another role in that we are open to anyone who has an interest in this area coming in and chatting to us about how they can do research in it. If there are think tanks that are thinking about developing such work, we are more than happy to provide analytical data or anything that we have that they can run with so that they can utilise our forecasts or our commentary in the best way possible for their work.

Michael Marra: Have you engaged with the Scottish Funding Council on the capacity and funding streams for that kind of work?

Professor Roy: When I was at the Fraser of Allander Institute, we kicked off the economic futures programme, which was originally seed funded by the Scottish Funding Council, that was about trying to boost economic capacity. That programme is still running; it is now self-funded. If you asked Mairi Spowage or anyone else on the team, I am sure that they would welcome anything that the SFC could do to support that even more. It relies on institutions such as ours that have the budget to recruit people and to give them internship opportunities. A third sector organisation or a small think tank such as the Institute for Public Policy Research might not have the budget for that, so any support to help to encourage young people coming through to get experience in that area would be good.

Michael Marra: I will move on to the budget process. We had the cabinet secretary in just before you—I do not know whether you caught any of that evidence or whether you were travelling. I raised with her the frustrations that were expressed in your evidence and report about transfers in budget, and she committed to having a conversation with the commission about agreeing a position on how those transfers are represented. Is that a welcome commitment? How would you take that forward?

Professor Roy: In short, yes. We have had that discussion not only in relation to the most recent budget. The work that we did and our report are all about how the budget process can be improved and made more transparent. Anything that is done on that will be welcome.

At the end of the day, we want to be able to say, "This is what the Government planned to spend last year, and this is what it plans to spend this year." Clearly, that is up to the Government. There might be unplanned movements, but we want to be able to be clear in saying, "This is the plan," and showing how it compares with the previous plan.

The obvious way of doing that would be through the protocol that we have with the Government that covers the level and type of information that we need and the dates for all of that. At the moment, we ask for and are given indications about that, but if it was written down as part of a formal process, we could then report back to the committee, for example, about how it went.

Michael Marra: So you think that it would be useful for the committee to ask the Government to change the protocol, in agreement with yourselves, so that you can agree on how such transfers are represented.

Professor Roy: Yes. John Ireland might want to come in on that but, in principle, the protocol would be the obvious way of doing it. It is transparent and clear, and everyone sees it.

John Ireland: Yes, the protocol is the obvious vehicle. In that protocol, there is something that we report on to the committee each year, which is the draft timetable for fiscal events. Setting a requirement for agreement by a certain date would be the obvious way of doing it.

As well as the transfers that Mr Marra has raised, the other thing to mention in this context is the classification of the functions of Government data, which is the data that allows us to make systematic comparisons by year on spend. Having a date in the protocol for the provision of that COFOG data that is sufficiently in advance so that we can analyse it would be a helpful step in the process.

Michael Marra: It strikes me that it would be sensible to review that protocol before the election in May.

John Ireland: We are meant to review the protocol every two years. We had a version of it that was about to be signed off just before the budget, but we wanted to make some last-minute changes, which delayed it for a bit. However, we have a version that is almost ready to be signed now.

Michael Marra: So there is an opportunity to set out an agreement on that at this time.

John Ireland: Yes.

Michael Marra: That is excellent. Thank you, convener.

The Convener: No bother. I call John Mason, who will be followed by Liz Smith.

John Mason: It is good to see you again. Quite a lot of issues have been covered already. You say that your staffing budget is under pressure, but a lot of people are applying for jobs, which suggests that the salaries are okay or attractive enough. How do you reconcile those two aspects?

John Ireland: There are a couple of things that attract people.

The Convener: Professor Roy is smiling.

John Ireland: There is a relative scarcity of opportunities, which encourages applicants. We pay Scottish Government main salaries, which are very competitive. We notice that those salaries tend to be above those of other Government departments outside London so, in a sense, the salaries are good and attract people.

The other thing that attracts people is that we are part of the single labour market within the wider Scottish civil service. Therefore, someone who gets a job at the commission can then apply for internally advertised jobs in the Scottish Government. As a small organisation, we offer new entrants the ability to work for us for a couple of years, gain experience, do interesting things but then move to an analytical role in the Government. That career path makes us very attractive as well.

John Mason: That would make turnover almost inevitable.

John Ireland: It does.

John Mason: The report notes that there were six vacancies out of a staff complement of 28, which jumped out at me. However, you have already touched on that.

John Ireland: Sometimes, these things happen in bursts. There was a burst post-Covid, and we expect there to another one next year, because people have been around for two to three years and are starting to get itchy feet.

The Convener: It is a measure of your success.

John Ireland: Yes. It is a nice problem to have.

John Mason: The commission's weekly working hours have gone down from 37 to 35. Are people working harder or do you need more staff? How does that work?

John Ireland: As the convener mentioned. I have gone down from five to four days a week, so I can speak from personal experience. I think that, if people have shorter working hours, there is improvement in wellbeing and, potentially, productivity. We tend to find that people work incredibly hard during fiscal events, when we are writing our reports, then take the flexitime that they have accrued during the non-busy periods.

The pressures tend to be less about having staff available to work on reports and more about the lack of time for model development and maintenance—that is, the background work—and for ensuring a pipeline of short articles and attractive video content. Such tasks come under pressure due to the shorter working week. Another example is the impact of additional public holidays.

John Mason: Okay. You said that you have been to some of the Scottish Parliament committees, but you have also been to the Scottish Affairs Committee at Westminster.

Professor Roy: Claire Murdoch was representing the commission as part of—

John Mason: Is that a regular interaction, or was that a one-off?

Professor Roy: It depends, in part, on what the Scottish Affairs Committee is looking at and scrutinising, but it does not happen regularly.

John Ireland: We do not attend annually. Claire Murdoch attended quite recently. We have had commissioners attend—for example, Professor Alistair Smith, who used to be a commissioner, went a couple of times. It happens when that committee is looking at fiscal issues on which it needs expertise.

John Mason: I am surprised that Michelle Thomson did not ask about this, but I was struck by the change in the male to female split of applicants that you have had. Your report says that 61.9 per cent of applicants did not identify as male, compared with 33 per cent the previous year. Did you do something that led to that change?

Susie Warden: Last year was a little unusual, in that we received more than 500 applicants for one of the posts that we recruited for. I tried really hard to get a diverse group of people to apply for that corporate post, and I certainly succeeded on that front, but that really skewed the data.

John Ireland: There are longer-term trends to consider. Economics has traditionally been a very male-dominated discipline. It got much better and much more balanced a while back, but unfortunately it seems to be changing again, and the graduate population seems to be becoming more male dominated.

12:00

John Mason: You said that you have been making an effort to reach out and spend time doing interviews with the media. Do you think that, on the whole, people in the media understand the SFC, Scottish finances and the budget? Are they beginning to understand those things better?

Professor Roy: Those whom we engage with in the media understand.

We always reach out to the media, and we did so this year. We have a very good media conference immediately after the budget—basically, all the main print and broadcast journalists attend. My sense is that they get it, and we do not have to give the same explanations as we might have had to give in the past. The questions are getting much harder and tougher. They are not asking us to explain the process and they get the income tax relative position, pressures on spending and the like.

The big challenge is volume. This is a broader comment about media, which is similar to the point that I made about think tanks. The budget is a big thing for a short period of time, and then, because there are so few journalists who are focused on public policy in Scotland, they move on to the next thing. The challenge for us is regularly drip-feeding the information through, and that is one of the reasons why we try to separate out our publications through the year. We have the budget, which is hopefully at the end of the year or the start of the year, and there is a fiscal sustainability report in the spring. We also have a new publication that we have pushed into the fiscal update, which is basically about getting ready for the Parliament coming back. Then we will usually have a medium-term financial strategy at some point in late spring. However, this year that is more likely to be published in the autumn. We try to spread out our publications so that we can engage with the media as much as possible, but we know that they are under a lot of pressure.

Liz Smith: During the past two years, you have very successfully worked to simplify the explanation of the budget through blogs, better diagrams and so on. Have you had a good response to that? Is there positive feedback that it is helping?

Professor Roy: Yes, I think so, but I can answer only based on the events that I speak at. John Ireland might want to talk about some of the pick-up more generally. The improvement and investment in visualisation have helped quite a lot. We can see that through attendance at media conferences. We have to correct stories much less often. We always monitor the situation, and we know when someone has misinterpreted something that someone has said. That is coming through. When we go along and talk at various events, we get feedback.

The main issue is how we increase the volume of coverage, and having two commissioners who are up for that and keen to do it gives us a chance to significantly amplify the work that we do.

Liz Smith: Will that continue? In the autumn, when the Parliament in the new session is embedded, there will be more training on the budget. Will that be extended to parliamentary staff as well as to new MSPs?

Professor Roy: Yes. We have done quite a lot of work with parliamentary staff. We get a good turnout at the SPICe breakfast seminars and so on that we do for staff.

There will be new MSPs, but their support staff will also be new. We do things that are not public, and we are always happy to speak to any member of Parliament or their staff, so that they can ask any questions about the process and how it works. That will continue post-election.

Craig Hoy: Much of what I was going to ask about has already been covered, but I have one question about your engagement with the media. The media is a necessary evil for all of us, and I say that as somebody who was once a journalist. Given your impartiality and, as you referred to earlier, your risk aversion, how do you codify your media engagement? Do you not want to put the head in the lion's mouth too often?

Professor Roy: That comes down to how I try to think about chairing the organisation and what to do.

Impartiality—and independence—is fundamental to us as an institution. If we lose that, it is gone. That is absolutely crucial in the role of the institution, so it is always right at the front of our minds when we are engaging, and we are very careful all the time about the language that we use and what we say. There is then a risk in terms of the balance when we think about how much we invite junior colleagues to start going out and saying things. What is the relationship there? We always have to balance that, because, if you lose the impartiality, it is extremely difficult to get it back.

In saying that, I think that we are open. We are really happy to chat to people and explain things. If people want to run a story, we will check whether it is factually accurate; it is up to them how they write it politically and so on. We are very open, but the important thing for us is the impartiality. If people are going to use arguments and they do it with numbers, you might disagree with the argument, but at least the numbers are right and correct.

Craig Hoy: Back in 2014, Ed Balls put some pressure on George Osborne to give responsibility for auditing manifestos to the Office for Budget Responsibility. I was very sceptical about pulling an independent body into an election campaign. I assume that you would be sceptical about any similar calls in Scotland for that process.

Professor Roy: That is a really interesting question, and the OECD touched on that as part of the review. Other fiscal institutions have that role; in the run-up to an election, they, in essence, audit the plans that are put forward by parties. Ultimately, what we do is determined by what the Parliament wants us to do. Taking on that role would require a change to the Scottish Fiscal Commission Act 2016, but if the Parliament wanted us to do that, we would of course go down that road.

However, there are important things to think about in that regard, because we have a clear protocol for our relationship with the Government. A lot of the engagement is between our officials and civil servants, and there is a code that governs that. I come back to my earlier point about independence and impartiality. How we would engage during the heat of an election campaign with—I mean no offence—politicians who are trying to win that election while ensuring that we did not get caught up in that would require very clear rules on what was dependent on it.

Craig Hoy: In the annual report, I see that, under potential risks in relation to partner organisations, part of the reason for remaining at amber on the risk register is the election process, "changing timetables and processes" and the potential for

"a new finance committee after the Scottish Parliament elections."

Is that a vote of confidence in us or a warning about what might follow?

Professor Roy: I could not possibly comment on that.

The Convener: Before I let Patrick in, I will just note that one difficulty is that parties publish manifestos after the postal ballots have been issued—all the main parties did that at the last election. In addition, how would you know which parties' manifestos to look at? There are dozens of parties, and some might complain that you had not looked at theirs but that you had looked at the more mainstream ones. I think that that would be a difficulty for you.

Patrick Harvie: I want to briefly follow up on the impartiality point. When it comes to what impartiality means, I imagine that you face a similar challenge to the one that most of the media face. To some, it means treating all opinions with equal respect, whereas others would say that impartiality means calling out falsehoods and not treating every opinion as equally valid. Do you feel that part of your role in being impartial is to proactively call out falsehoods when they are made?

Professor Roy: Yes, and particularly when that is defined around our work and what we do. I have very clearly said that I am more than happy for people to challenge our work, criticise it and say that they have a different view about it—that is entirely fine. However, if people used our work in a way that was wrong or potentially misleading, we would be clear about having concerns around that.

Coming back to the point about the broader community, we do not have a role such as that of the Fraser of Allander Institute, which can opine more broadly on things. For example, we cannot—picking up on Mr Hoy's point—comment on the Opposition parties' policies and ideas. That is not for us, because we are only allowed to comment on Scottish Government activity. If a party comes out with a tax policy, you will not see us commenting and saying whether it is good or bad or what the costs would be, because that is not in our remit.

Patrick Harvie: I want to come on to an issue that relates to the way that your remit is constrained in law, which means that Parliament would have to decide to change it. Is there a gap in the information that is available to the public and to the political environment, given that your remit is focused on the Scottish Government?

At a previous meeting, we discussed the fact that you do not do forecasts for council tax. I am not sure whether council tax raises quite as much as non-domestic rates, but it is in the same ball park. It is either the second-biggest tax in Scotland or a close third.

Whether we are looking at forecasting or the concept of fiscal sustainability, councils deliver significant services in Scotland, and the same question about the sustainability of their finances in delivering those services that applies to the Scottish Government's finances applies to them. Does the fact that your function applies only to the Scottish Government not mean that there is a serious gap? Most of your discussion of the local government budget is about the outgoings from the Scottish Government, rather than about how that money is used and how services are delivered.

Professor Roy: In answering that, I will stray into personal opinion rather than commenting on the view that the commission might have. We were deliberately set up to operate in the context of the fiscal framework and the transfer of fiscal powers to the Scottish Government and, therefore, the Parliament. We were set up as one of the supporting mechanisms to give the Parliament reassurance about those arrangements.

Because the institution has settled down and we are making a contribution, that could lead to demands for us to have a broader remit and to be able to think about the public finances in all the devolved areas. You are right that we do not have a role in areas such as local government. There is no fiscal framework for local government. Council tax is outwith our remit because it is a local tax, but it clearly matters a lot to people and is an important part of the whole budget process. However, we do not have a role to play on council tax.

Similarly, as we have already discussed, we engage only on Scottish Government propositions; we do not engage on broader propositions that are aired in Parliament. I am starting to stray into the issue of, if people are happy with the institution, what the long-term objective for it is.

Patrick Harvie: That is the case despite the fact that much of what local government does—whether we are talking about the way that local government tax setting gets interfered with by central Government or the fact that the nature of its services is often defined by central Government—is a consequence of decisions by the Scottish Government, albeit that they play out at local level.

Professor Roy: Yes, that is right. We can do some things as part of the expending work—for example, we can look at the evolution of specific grants to local government—but how the big general revenue grant operates and is allocated is not part of our remit.

Patrick Harvie: If the Scottish Government or the Parliament, in a future session, were to decide that that should change and that the commission's function should be broadened, would the commission be able to take that on?

Professor Roy: Ultimately, the commission will do what it is instructed to do and what any future piece of legislation sets out in that regard. A resource request would have to be made and we would have to think carefully about how such a change would be operationalised.

I come back to the point that we have a protocol with the Scottish Government about when we get data and how information is provided. If we were to move into a much broader area, such as local government, or to undertake engagement on broader policy issues, the Parliament would have to be really careful to ensure that we had the resource that we needed in order to be able to do that and the rules and processes in place to underpin it.

The Convener: That is a very important point. You would need to have the resources in order to be able to do that work.

I have no further questions. Is there anything further that you would like to say to the committee?

Professor Roy: I have said this before, but I want to thank the committee for the scrutiny that we get, which makes us better in how we perform as an organisation, and for the general support that the committee provides in helping to promote our work. We got some help explicitly with the recruitment of our two new commissioners, which was really welcome. That helped us to get a broad pool, which has been really positive for us.

The Convener: Thank you. I hope that John enjoys his one-day-a-week retirement. I have no doubt that we will see you again before too long.

We will now have a break for a few minutes to allow for a change of witnesses.

12:14

Meeting suspended.

12:16

On resuming—

Finance (No 2) Bill

The Convener: The last item on our agenda is an evidence-taking session on legislative consent memorandum LCM-S6-71. We are joined by Ivan McKee MSP, Minister for Public Finance, and the following Scottish Government officials: Merlin Kemp, head of income tax and tax strategy; and Laura Wilkinson, lawyer. I welcome our witnesses to the meeting—good afternoon.

Before we move to questions, I invite the minister to make a short opening statement.

The Minister for Public Finance (Ivan McKee): Thank you, convener, and good afternoon. First, I thank the committee for arranging this session at short notice, and with an already busy schedule of business to get through in the run-up to the pre-election period.

The measures that we are discussing today are contained in the UK Government's Finance (No 2) Bill. Finance bills are subject to an expedited timetable compared with other legislation, which has not given us much time to arrange for the consideration of this LCM.

In her budget statement on 26 November last year, the Chancellor of the Exchequer announced her intention to increase the amount of income tax due on income from property for taxpayers in England. From 27 April, the UK Government intends to separate out income from property from other types of income and increase the amount of income tax due on it by 2 percentage points. It was one of the few budget measures that was not leaked in advance, and there had been no prior consultation with the Scottish or Welsh Governments.

On budget day, we were informed that the plan was to offer the Scottish and Welsh Governments an equivalent flexibility. Both the Scottish and UK Governments agree that it is appropriate for the Scottish Parliament to give legislative consent to this measure, which amends the income tax rules contained in the Scotland Act 1998, and that is why we are here today.

Property income is defined in income tax legislation as income from rent or other receipts from estates and any interest or rights in or over land in the United Kingdom. Because it is already subject to Scottish income tax as a sub-category of non-savings, non-dividend income, the proposed change does not affect the overall Scottish income tax base. The proposal, instead, is to give Scotland a similar flexibility to the one that is being taken in England from 27 April. Under the proposals, whatever Scottish rates and bands of income tax are in place would continue to apply to income from property, but when making a Scottish rate resolution, the Scottish ministers would be able to include separate rates of income tax for income from property for Scottish taxpayers.

It is worth noting that, if the UK Government proceeds as planned and increases income tax on property income from April 2027, it will have a detrimental impact on the Scottish budget. Calculations made by His Majesty's Revenue and Customs suggest that the changes would mean an increase to the block grant adjustment of around £42 million in 2027-28 and around £31 million subsequently. That would mean an overall worsening of the income tax net position, and, as a result, there will be a financial pressure on a future Scottish Government to use the power in order to offset that impact.

Further work is needed, but our initial analysis suggests that, if Scotland were to follow suit and increase Scottish rates by 2 percentage points, up to £32.5 million could be raised in 2027-28. That would result in a worse net position for that year by about £10 million. With that in mind, in any future discussions on the fiscal framework, we will make the point strongly that there should be no detriment to the Scottish budget as a result of the UK Government's decision to change income tax in this way.

The UK Government's decision to increase rates in England will result in a block grant adjustment, whether or not we consent to the additional flexibility, so my view is that it is better that we have that flexibility. I do not come here today with a proposal for how the power should be used—that is for a future Government to decide—but I recommend that we agree to having the additional flexibility.

I note that there will be keen stakeholder interest in how a future Scottish Government might use the power. I expect there to be proper engagement and thorough consideration of the wider interactions and impacts before any such decision is taken.

The Convener: Thank you. In her letter to the committee, the Cabinet Secretary for Finance and Local Government said:

> "This was an unanticipated announcement at the Budget, with no prior consultation or advance notice"

to the Scottish Government. That is another example of Scotland being at the heart of the Labour Government.

The figures that we have seen are somewhat different from yours. We have been told that the UK rate increase is estimated to result in a block grant adjustment of £25 million, but I did not hear you give that figure—I heard you give the figures of £32.5 million and £42 million. It looks as though Merlin Kemp wants to come in on that point.

Merlin Kemp (Scottish Government): The £25 million figure in the LCM that is before you, which I drafted, was based on an initial estimate that was provided to us by HMRC. The figures that the minister mentioned are based on updated estimates from HMRC. The £25 million figure is out of date, so the figures are now £42 million and—

The Convener: The block grant adjustment will be even higher.

Merlin Kemp: Yes. The £25 million figure was HMRC's initial stab at it, but the figure has been revised upwards.

The Convener: The Scottish Government is being given a flexibility that it does not currently have, but it will not provide much flexibility. It is a wee bit a case of having a gun to our head. Am I correct in saying that?

Ivan McKee: The position is clear, although we need to consider the matter more deeply to understand why the figure will be £42 million in the first year before dropping to £31 million in subsequent years. We think that that is to do with the way in which self-assessment works and the timing issues in that regard, but we are engaging with HMRC to get more detail on that.

In principle, you are correct. Once things have settled down, our estimations and HMRC's estimations are broadly similar. If we choose not to raise rates by a similar amount, there will be a cost in reduced revenue for the Scottish Government.

Craig Hoy: I know that you do not want to talk about how the power might be used in the future, but an issue will arise in relation to the relative differences in the tax bases. The number of buy-to-let properties north of the border will be different from the number south of the border, so there will be the capacity to raise more money in England if it has a bigger buy-to-let sector. Therefore, would it not be prudent for the Scottish Government to work quickly to encourage people into the Scottish buy-to-let market, given that our budget will be exposed if Scotland has a smaller private rented sector—and, therefore, not as much private rental income—relative to the rest of the UK?

Ivan McKee: Something needs to be clarified in relation to the first year—2027-28—but, when a tax is devolved, a calculation is done to find out how much has been raised in Scotland, and that is what constitutes the BGA. Therefore, we will start from the position of where we are, not from the position of where we are relative to the rest of the UK, if that calculation is done correctly. That needs to be worked through. As you will have seen with other taxes, the first year involves a settling-in process so that we can get more accurate data in order to set the baseline for the BGA.

The percentage of the total UK rental market that is in Scotland should not have an impact, but there might be an impact if there were differential growth rates in that market. I accept the point that you are making, but that will be for a future Government to consider.

John Mason: I like the word "flexibility", but other people might say that it equals risk. Last week, when Professor Heald was giving evidence to the committee, he made the point that, every time we take on a new power—broadly speaking, I want us to take on new powers—the risk increases, but there is no equivalent increase in our borrowing powers and so on to cover that risk. I accept that this particular case is tiny in the scheme of things, so I am not worried about it, but I wonder what your thinking is. As we take on aggregates tax, air passenger duty and so on, does the UK Government understand that? Are you putting the argument to the UK Government that the fiscal framework has to change?

Ivan McKee: You have a valid point. As you said, it is not a big number in the scheme of things, but conversations on the fiscal framework are on-going both on the specifics of this change and, more broadly, with regard to increased borrowing powers. You are right to say that, as flexibility increases, the risk increases by the nature of it, and the whole point of having borrowing flexibilities is to build a cushion against that risk.

John Mason: Even though it is one little thing, it seems to be part of a longer-term trend.

Patrick Harvie: Can I be clear that I understand the level of flexibility that is being offered to Scotland in this regard? A future Scottish Government would have the option, if it was so minded, of charging rental profits at a lower rate of income tax or at a higher rate of income tax than presently—higher or lower than elsewhere in the UK, or higher or lower than other forms of income? Is that correct?

Ivan McKee: I will defer to officials in a minute. My understanding is that that is indeed the case. I will ask officials to clarify, but I suppose that we could say that we could charge a lower rate of tax on income from property than we do on other income, which would be an interesting scenario.

Patrick Harvie: That is not a position that you would expect me to support, but the flexibility is there.

Ivan McKee: Yes. In theory, the 2 per cent could go to zero. In theory, it could go negative, I think, but I will ask officials to clarify that. It is my understanding that it could also increase above that 2 per cent. I do not think there are any limits on that, but Merlin Kemp can clarify.

Merlin Kemp: Yes, you are right. We cannot set bands and thresholds that are different from the ones that apply to the rest of income tax in Scotland. The income tax bands and thresholds that currently apply would continue to apply, but each of those could be set separately for property income. It could be varied by 2 per cent more or 2 per cent less, or it could be a combination of bits and pieces. If we want to continue with our progressive approach, where at the lower end we tax less and at the higher end we tax more, we could do that. There is quite a lot of flexibility, but it has to apply to the existing bands.

Patrick Harvie: So, if a person has a good level of income from employment but it is not enough to reach the additional rate of tax, but they also have enough property income that their total income would reach it, a future Scottish Government would be able to say that it is all income, so it will be taken together and they will pay the additional rate on their income, or it would be able to say that property income should be taxed at a higher rate and we would have a system that makes that distinction.

Merlin Kemp: Yes, but just to be clear, the HMRC still sets the rules for the way in which tax is assessed. When someone submits their self-assessment return, there is an order in which income is taken into account. For example, income from employment is set against the personal allowance first. The hierarchy of taxes that is set by the UK Government continues to apply, so earned income would be considered first, and then property income would follow that.

Michelle Thomson: I have a slightly technical question that, arguably, follows on from that. I appreciate that you have not had a chance to think about how it will affect investment or supply or rents, and you will have to look at that. However, for private landlords who are subject to section 24 of the Finance (No 2) Act 2015, all rent is assumed to be income and only 20 per cent of any mortgage is netted off. That is going to skew the issue even further. Could they potentially be paying the additional rate, which is deemed to be on all the income, even though it is not actually all income, if that makes sense? Have you had a chance to consider that yet? Depending on the level of gearing, it could have a big impact. In other words, people could be put into a loss-making position if it is deemed to be all income and it is not at all, and that will lead to exit from the market and impact on wider housing supply.

12:30

Ivan McKee: Okay—where to start with all that? I will invite Merlin Kemp to come in in a minute.

Michelle Thomson: It is a bit technical.

Ivan McKee: You said that that is all income, but surely the expenses would be netted off?

Michelle Thomson: That is the whole point. Only 20 per cent can be netted off because of section 24 of the 2015 act. For the sake of argument, if you have a rent of £100 and a mortgage of £80, HMRC judges you to have an income of £100, but, of course, the net after expenses is not that at all and, if there is a tax increase of 2p, it could have a skewed impact if they are geared quite highly.

The Convener: I am glad that it is the next Government that will have to decide on that.

Merlin Kemp: There is that, and, to be honest with you, we have not worked all that through because it is for a future Government. However, it is probably worth making the point that the UK Government is going to change the finance cost relief to 22 per cent to match its plans to increase property income tax from the base rate of 20 per cent. There are interactions between the decisions taken by the UK Government and what we do in Scotland.

Michelle Thomson: There is also that complexity that my colleague John Mason talked about around working out what you will actually get, because there are also behavioural impacts that will take a bit of working through.

The Convener: As there are no more questions, are members content for the clerks to draft a report recommending that the legislative consent motion is approved by Parliament?

Members *indicated agreement*.

The Convener: All members are agreed, and that was the final item on our agenda. Before I close the meeting, I thank all members for their contributions this morning. It has been a four-hour shift and we have another eight hours plus in the chamber this afternoon, so I appreciate everyone's contributions.

Ivan McKee: I will see you next week.

Meeting closed at 12:33.

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